

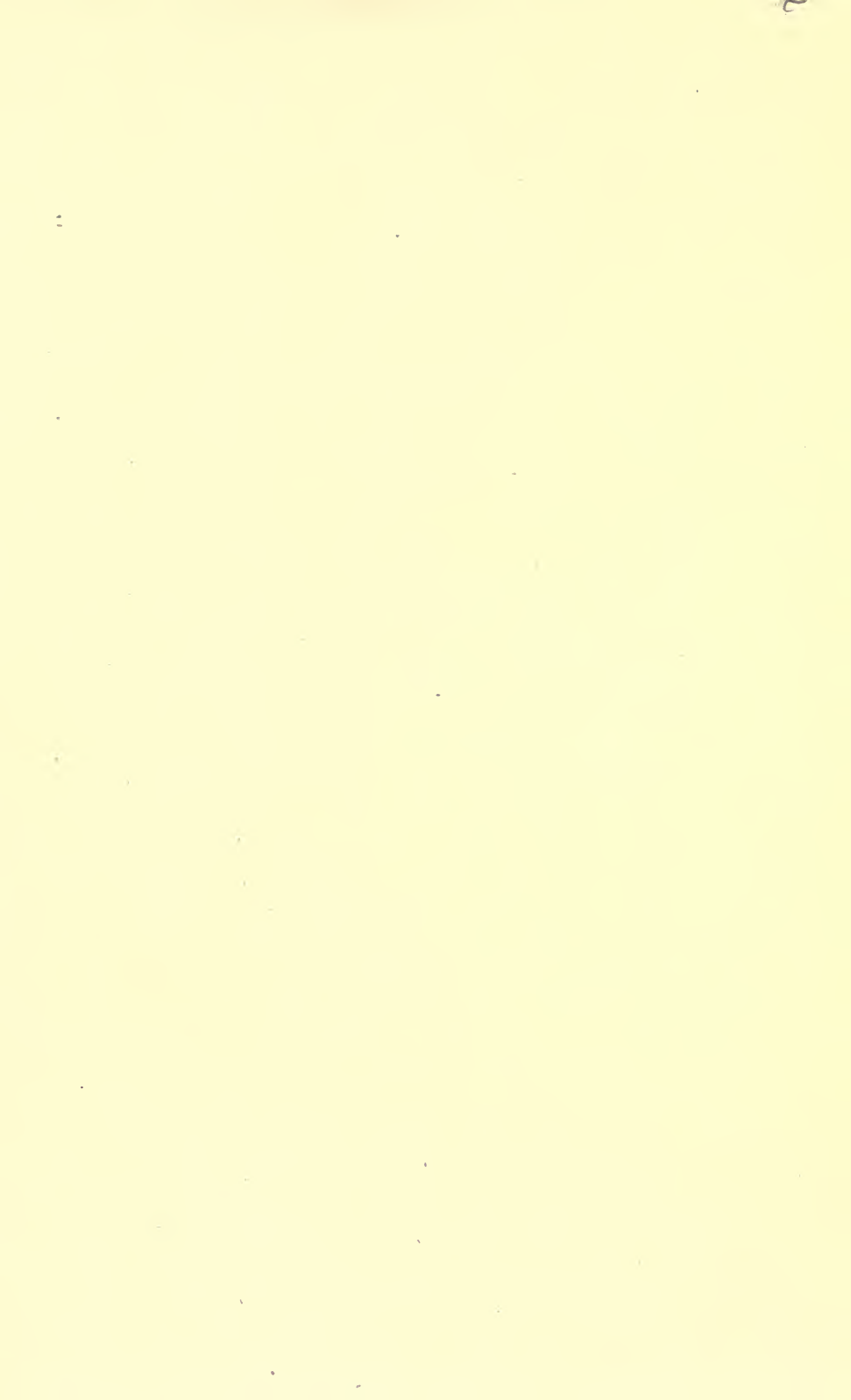
**The  
Decline  
of  
American  
Capitalism**

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Also by Lewis Corey:  
THE HOUSE OF MORGAN



LEWIS COREY

# The Decline of American Capitalism

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NEW YORK

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TO  
Esther  
WHOSE FAITH IS PART  
OF THIS BOOK



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PART ONE

The American Crisis



## Introductory

AMERICAN life moves and changes swiftly. Government and industry resort to new and desperate measures. Traditions break down. Accepted truths are challenged or repudiated. The present is dark, the future uncertain and threatening. There is an accumulating pressure of underlying ferments and forces which create social explosions. Classes mobilize: ideas clash. These are all indications of a crisis.

One aspect of the American crisis arose out of the depression and the efforts to overcome it. While ballyhoo promises a new and everlasting prosperity, a new world, millions hope merely for a job, any sort of job; for an income, any sort of income to ward off charity. Millions must accept charity, whether direct or in the form of "relief work." The mobilization of government to "war upon depression" aroused hopes which were meagrely realized.

Another and more fundamental aspect of the crisis involves the *decline* of American capitalism. It is a crisis of the economic order itself. This is evident in the inability to restore prosperity on any substantial scale. The future is one of incomplete recovery: of economic decline, mass disemployment (including millions in clerical and professional occupations), lower standards of living, and war. Every depression is in a sense a crisis of capitalism. But this depression represents the development of a fundamental, permanent crisis in the economic and social relations of American capitalism. Only a deep-going crisis could force government and industry to adopt measures which were formerly condemned as opposed to economic progress. The intervention of government in industry is, of course, nothing new: the development of capitalism has been accompanied by growing government aid to industry. But such aid was limited in scope. It was, economically, an expression of the upswing of capitalism, of the necessity of government action to "regulate" the developing relations of trustified capitalism. But to-day government intervention is on an unprecedented scale. Its economics and politics are an expression of the decline of capitalism, of the necessity of government action to prop up the sagging foundations of the economic order. The avowed aim is to insure prosperity, formerly achieved by the working of "free" capi-



talist enterprise. The real need is for increasing use of government to manipulate economic forces, for state capitalism, *because capitalist industry is unable to function as of old*. The forms of state capitalism may change, but the need remains, with fascism looming ahead. As capitalism declines, the state *must* intervene more drastically to aid industry and suppress labor. It is the death of the old world, not the birth of the new.

The depression which set in after 1929 was the worst economic disaster in American history. It was aggravated by the acute world crisis, a major catastrophe of capitalism. The downward movement of production began in July, 1929 and continued until March, 1933—three years and nine months. No previous decline was as long or as steep, not even in the great depressions of 1873 and 1893. In the depression of 1920–22 the downward movement of production continued ten months, and two years completed the swing from recession to renewed prosperity. Unemployment, including clerical and professional workers, rose in 1933 to 17,250,000; 14,250,000 wage-workers or nearly 50% were unemployed, compared with 30% in 1921. Part-time employment was also greater. And the situation was not very much improved, for the depression did not end in March, 1933. The revival, largely because of its inflationary and speculative character, did not lead to recovery. There was the ominous spectacle of a minor but complete cycle within a few months: revival in April, recovery in May, and “boom” prosperity in June; as production and profits outstripped wages and consumption, “prosperity” broke down in July, accompanied by a crash in the stock market; recession and depression again, and an intensification of the crisis.

These recurrent breakdowns of prosperity are a typical, damnable spectacle of capitalist civilization. Men, women, and children starve or agonizingly approach starvation while wheat and corn rot, vegetables perish, milk and coffee are destroyed. The wheels of industry slow down while millions of workers eager to work are condemned to unemployment. Wants go unsatisfied on an enormous and oppressive scale, although all the means exist to satisfy the wants. (Depression magnifies the condition prevailing even in periods of the most flourishing prosperity, when there are also millions unemployed; their wants and many wants even of employed workers are unsatisfied.) This monstrous state of affairs was unknown to the people of pre-capitalist civilizations: they knew want as the result of scarcity, natural calamity, or war, and the torment of labor lay in its severity. Capitalist civilization introduced a new form of want, want in the

midst of abundance; a new torment of labor, the torment of workers deprived of work while there is an abundance of the means and objectives of working. Our ancestors would have considered the situation idiotic; it is considered idiotic to-day by the non-capitalist, developing socialist civilization of the Soviet Union.

After every depression the cry has gone up, "It can never happen again!" But it did happen again, and will. The United States experienced, from 1790 to 1925, one year of depression for every one and one-half years of prosperity.<sup>1</sup> Cyclical crises and breakdowns are inherent in capitalist production: depression is as characteristic as prosperity and nearly as frequent.

But this depression is more than the usual cyclical breakdown. Its duration, severity, and specific character are determined by non-cyclical factors of economic decline. It is not simply that another depression is inevitable after another short period of prosperity—although that in itself is enough to condemn capitalism, which *must* repeat the calamities of economic breakdown, mass unemployment, and mass starvation. Capitalism has survived many depressions: they have, in fact, been the starting points of new upswings of prosperity. This crisis of American capitalism involves two new developments of major historical importance:

In previous depressions economic forces were always strong enough to start and complete a recovery, but recovery now seems almost indefinitely postponed. Government intervenes to hasten the recovery, which is nursed and coddled and kept alive with all sorts of stimulants, government financial aid, and jabs of the inflation needle—an ominous contrast to the lusty capitalism of old!

Unlike former experience, this depression cannot end in any real upswing of prosperity, because cyclical recovery and prosperity are now necessarily limited by the pressure of capitalist decline, which involves exhaustion of the long-time factors of economic expansion.

These are the critical developments which underlay the adoption of the National Industrial Recovery Act, of state capitalism. The captains of industry and finance, some say, have proven their incapacity: let the government act! But the incapacity is an old story: in the past it did not prevent the revival of prosperity, because capitalism was on the upswing, a progressive economic force. If the government must act now, must hand-feed industry, it is because capitalism is in crisis as a result of decline and decay, of the exhaustion of its progressive economic force.

## Ballyhoo: The New Capitalism

THE acute nature of the American crisis appears in the failure of the desperate resort to more drastic state intervention in industry—in the failure of the National Industrial Recovery Act and its creations. It had to fail. For in essentials, in spite of differences in institutional forms, the Act merely introduced measures of state capitalism which have been tried in Europe and have *not* restored prosperity there. Yet Niraism was greeted as another “new capitalism,” the beginnings of a new era in American civilization. Consider a few of the magnificent claims:

Senator Capper: “The changes are revolutionary.” . . . H. I. Hariman, president, Chamber of Commerce of the United States: “A new business dispensation; holds out the promise of a better day.” . . . A speaker at a convention of the Advertising Federation of America: “Marks the threshold of a new era.” . . . Nelson B. Gaskill, president, Lead Pencil Institute and former member of the Federal Trade Commission: “The beginning of a new epoch; a systematized democracy.” . . . Mrs. Laura W. McMullen, chairman, international relations department of the General Federation of Women’s Clubs: “An economic revolution, in the course of which the institution of private property is being quietly undermined.” . . . General Hugh Johnson, NRA Administrator: “A new era; high level of prosperity.” . . . The New York *World-Telegram*: “A revolution to bring order to industry and security to the masses, to redistribute wealth, to fit the wage system into the power age.” . . . Oswald Garrison Villard, liberal of the old school: “The revolution which has taken place in so short a time; taint taken off socialism.” . . . William Green, president, American Federation of Labor: “Planning for national welfare; sound fundamental philosophy of the relationship between government and industry; serves the welfare of investors of capital and producing workers.” . . . American Federation of Labor, *Current Survey of Business*: “Points the way to a new order.” . . . Frances Perkins, Secretary of Labor: “We may find we have built up a new kind of civilization; a blessing beyond anything we in our generation have ever dared to dream of.” . . . Rexford Guy Tugwell, Assist-

ant Secretary of Agriculture: "To save our institutions from unlimited greed, and to turn the results of common efforts toward more general benefits: enlarged incomes for common people, greater leisure, security from risk." . . . Leonard Rogers, an interpreter of current events: "The American compromise with communism."<sup>1</sup>

These claims, already shattered by events, are more than mere demagogic incitation. They are part of an ideology in the making, by means of which the decline of capitalism is masked and the way prepared for the ideological subjugation of the masses. At its basis is the conception of a "new capitalism." This conception is recurrent. Any new stage or twist in the development of capitalism is seized upon by apologists, who proclaim that the economic order is being transformed. The conception of the "new capitalism" is a form of struggle against the workers and farmers, the clerical and professional workers.

After the depression of 1873-79, marked in its later stages by aggressive labor struggles, a considerable ballyhoo arose about profit-sharing and the "partnership" of labor and capital. One economist, echoing others, spoke of "a new régime of production and distribution," of an irresistible and continuous upward movement of wages, mass consumption, and standards of living, which would result in "the end of human poverty."<sup>2</sup> Four years later the prophecy was answered by the depression of 1893-97, and by the following seventeen years during which wages, mass consumption, and standards of living were practically stationary. . . .

The immediate parentage of the NRA ballyhoo was the ballyhoo of prosperity which flourished in 1923-29, and ended in the most disastrous of all depressions. It is important to recall this fact, not only because that prosperity is now mocked by depression, but because *all its essential claims reappear in the "new capitalism" of the NRA.*

The pre-1929 ballyhoo of prosperity, which expressed the "Golden Age" of American capitalism, had as its basic claim the old concept of "a new régime of production and consumption," thus restated by one bourgeois economist:

"Increasing productivity of labor and industry, advancing wages, higher living standards and greater consuming or purchasing power rapidly became the avowed policy and practical program of American industry . . . a new industrial revolution which is the marvel of the civilized world."<sup>3</sup>

Another economist said: "A new principle works: consumption



finances production. The more wealth is consumed, the more it will increase. In this country the demonstration of that idea occurred. It is the American contribution to economic experience.”<sup>4</sup>

American capitalism, the prophets insisted, accepted the fact that prosperity depends upon mass consumption, and, consequently, upon increasingly higher wages. It was heady wine, this flattery of the capitalists; they began to believe in the ballyhoo and millionaires gravely prophesied the end of poverty. . . . Charles E. Mitchell, president, National City Bank of New York: “A revolution in industry has been taking place that is raising all classes of the population to a more equal participation in the fruits of industry, and thus, by the natural operation of economic law, bringing to a nearer realization the dreams of those Utopians who looked to the day when poverty would be banished.” . . . James H. Rand, president, Remington-Rand, Incorporated: “The economic revolution of the 1920’s will appear as vital as the industrial revolution in England and it will likewise mark the beginnings of a new era.” . . . Andrew W. Mellon, Secretary of the Treasury and a powerful financial capitalist: “America has adjusted herself to the economic laws of the new industrial era, and she has evolved an industrial organization which can maintain itself not only because it is efficient, but because it is bringing about a greater diffusion of prosperity among all classes.” . . . Melvin A. Traylor, president, Continental National Bank of Chicago and the American Bankers Association: “We need not fear a recurrence of conditions that will plunge the nation into the depths of the more violent financial panics such as have occurred in the past.” (This was in 1927, when a minor cyclical depression warned of the greater disaster to come.) . . . E. A. Filene, president, W. Filene and Sons Company: “What the socialists dreamed of the new capitalism has made a reality, but not by their methods. The ever-present human desire for greater total profits will lead to the adoption of the new principles.” . . . Haley Fiske, president, Metropolitan Life Insurance Company: “Here is a new business era. The glory of wealth fades. Extent of power fades. What does remain here and throughout eternity is that every man try his best in serving God to serve well his fellowmen.”<sup>5</sup>

Captains of industry and finance appear Jovellike in prosperity and bewildered in depression, but at no time do they really understand the movement of the economic forces they exploit. Their pre-1929 invocations to the “new era” expressed sheer misunderstanding; but

they also expressed, if partly unconsciously, the defensive, self-justifying ideology of predatory capitalism.\*

The prosperity ballyhoo reached its crescendo in a book, *Make Everybody Rich—Industry's New Goal*, published a few months before the breakdown of prosperity in 1929. It is a curiosity of economic literature. The theme was this:

"The real industrial leaders of present-day America do not need to be told that the goal of industry is to make everybody rich. It was they who discovered the fact . . . who discovered the economic necessity of high wages. . . . Not merely will prosperity be stabilized, but the rule of class will for the first time in human history utterly disappear."<sup>6</sup>

Within a few months industry changed its "goal" and began to make everybody poor, an undertaking crowned with infinitely greater success. One of the two authors of *Make Everybody Rich*, Benjamin

\* The invocations to the "new era" were also profitable. Among other successful exploiters was *True Story*, a magazine of highly sexy stories deodorized with moral platitudes and reached a circulation of over 2,000,000. At first *True Story* was used only by the cheaper class of mail-order advertisers. An advertising promotion story was necessary to "sell" the magazine to the big national advertisers. So *True Story* launched a promotion campaign, emphasizing that its readers were wage-earners, that wage-earner families constitute 86% of America, and that the income of wage-earners had increased enormously. "For the first time in history," *True Story* informed advertisers, "the wage-earner is a prospect for advertised goods. He is the *New Market* that may make or break to-morrow's merchandising leaders." The climax of the campaign was a series of full-page advertisements in the *New York Times* (some of them appeared in the issues of May 21, June 25, October 14, and December 9, 1929). Here are a few gems:

"The economic history of the past ten years has been startling. The volunteering of bigger pay and shorter hours, in order that labor might have the money to buy and the leisure to enjoy the things that it helped to make, *has virtually ended a capital-labor war which has been going on now for upward of three hundred years*. And the opportunity now offered to labor to own an interest in the concerns in which it works has opened up an *experiment in equality* that has never been known before in the history of civilization.

"In making labor co-partner in your efforts and your enterprise, sharing your profits and your dreams with so little to be gained on your part and so much to be lost, you have probably taken the *greatest forward step in human conduct* that the world has ever known.

"To-day labor is buying *over 65% in dollar volume* of the things it helps to make. . . . It is the *freedom from care* with which they are buying, the freedom from *worry* in their eyes, the freedom from *fear* in their shoulder blades."

It worked: *True Story* made millions in profits. But in spite of the imposing array of "economic" arguments and statistics, the campaign was based on distortions. Most of *True Story's* readers were *not* wage-earners; 86% of America was *not* composed of wage-earners, and they did *not* buy "over 65%" of consumption goods; the rise in wage-earner income was grossly exaggerated.

A. Javits, has since been chanting the praises of the NRA in the same millennial terms he used to invoke prosperity everlasting. . . .

In addition to increasingly higher wages and mass consumption, the pre-1929 "new capitalism" claimed that it was introducing "industrial democracy." In 1924, Herbert Hoover spoke of "the great increase in ownership of industries by their employees and customers," and of "forces slowly moving toward some sort of industrial democracy."<sup>7</sup> Arthur Williams, vice-president of the New York Edison Company, a part of the electric power oligarchy under control of the House of Morgan, insisted that wage-workers were becoming capitalists:

"As a result of a gradual economic revolution we are beginning to see that every worker is a potential capitalist. Wealth is not only increasing at a rapid rate, but wages are rising. There are at least three kinds of evidence which indicate roughly the extent to which workers are becoming capitalists: the rapid growth of savings deposits, the investment by workers in shares of corporations, and the growth of labor banks."<sup>8</sup>

These ideas were widely spread and believed and were echoed at the 1925 convention of the American Federation of Labor by Spencer Miller, director of the Workers Education Bureau. Miller maintained that "so significant is this whole economic change that it has been properly characterized as an economic revolution by students of our economic life." Out of this conception arose the theory of "trade union capitalism," whose basic assumption was that the "higher strategy of American labor" is "based upon the solid ground of capital ownership."<sup>9</sup> This "capital ownership" was to be mobilized by labor banks, which the Grand Chief of the Brotherhood of Locomotive Engineers considered the "American answer to Marx and Lenin."<sup>10</sup> The banks are now a mass of ruins. . . .

The master mind of the "new capitalism" was Thomas Nixon Carver, professor of economics and major prophet of prosperity. His book, *The Present Economic Revolution in the United States*, originated all the assumptions of the pre-1929 "new capitalism." It is another curiosity of economic literature, a fantastic combination of misleading statistics, apologetic economics, slipshod sociology, and rationalized prejudices. After smugly declaring that "to be alive to-day, in this country, and to remember the years from 1870 to 1920 is to awake from a nightmare . . . [no more] slums and socialist agitators, blatant demagogues and social legislation," Carver opened the case for the "new capitalism" with a distortion of history:

"The great war produced a number of political revolutions in Eu-

rope. It has not yet produced an economic revolution. The only economic revolution now under way is going on in the United States. It is a revolution that is to wipe out the distinction between laborers and capitalists by making laborers their own capitalists and by compelling most capitalists to become laborers of one kind or another, because not many of them will be able to live on the returns from capital. This is something new in the history of the world.”<sup>11</sup>

Not even, Carver insisted, was there an economic revolution in Soviet Russia, where the working class expropriated the capitalists and landowners. Carver was one of the bourgeois scholars who greeted the New Economic Policy in Russia as a “reversion to capitalism,” the final proof of the bankruptcy of Marxism. They dismissed as rationalization Lenin’s argument that the new policy was merely a retreat to reconstitute forces for a new offensive. Yet in a few years the Soviet Union unloosed another offensive against capitalism and systematically began building the economic basis of socialism. Carver’s American “revolution” led to the most appalling of cyclical breakdowns and economic decline, the Russian revolution leads to economic advance and socialism—a trifling difference!

Blind, as only the scholar become ballyhoo-maker can be, to economic reality, Carver painted a glowing picture of the American revolution:

“Instead of the concentration of wealth, we are now witnessing its diffusion; but the old tirades against plutocracy are still repeated. . . . Instead of low wages for the manual trades, we are now having high wages; and yet the old phraseology, including such terms as wage slavery, still has a certain vogue. . . . Instead of the laborer being in a position of dependence, he is now rapidly attaining a position of independence. . . . Laborers are becoming capitalists. We are now approaching equality of prosperity more rapidly than people realize. . . . Neither state socialism, guild socialism, sovietism, nor the ordinary cooperative society presents a plan of organization so well suited to the needs of the workers who desire to own their own plants as does the joint-stock corporation. . . . The full development of the so-called capitalist system will not be reached until practically everyone has become a capitalist, that is, an owner or part owner of some of the instruments of production. . . . It is just as possible to realize equality under capitalism as under any other system.”<sup>12</sup>

Is it any wonder that the capitalists, as they scooped in the profits of industry and speculation, began to believe they were the saviors of mankind? . . .



Another aspect of the pre-1929 mythology of prosperity was the theory that cyclical fluctuations were now measurably under control. There were to be no more alternations of prosperity and depression, no more hard times—prosperity would be everlasting! (Similar claims were made for the “planful” system of “controls” instituted by the National Industrial Recovery Act.) Among the exponents of the theory of everlasting prosperity were the members of the President’s Committee on Recent Economic Changes, including Owen D. Young, Daniel Willard, John J. Raskob, and Clarence M. Woolley, identified with corporations under the control or influence of the House of Morgan, and William Green, president of the American Federation of Labor. In its report, *issued a few months before the breakdown of prosperity in 1929*, the Committee said:

“Control of the economic organism is increasingly evident. . . . Once an intermittent starting and stopping of production-consumption was characteristic of the economic situation. It was jerky and unpredictable, and overproduction was followed by a pause for consumption to catch up. For the seven years under survey [1922-29] a more marked balance of production-consumption is evident. . . . A sensitive contact has been established between the factors of production and consumption which were formerly so often out of balance. . . . In many cases the rate of production-consumption seems to be fairly well under control. . . . There is now a more even flow from producer to consumer. . . . It would seem we can go on with increasing activity.”<sup>13</sup>

An economist-statistician expressed the general illusion in “objective” terms:

“There have developed in this nation mainly since the war period basic factors of a long-time nature which can be termed largely American. . . . First, increased use of power per worker; second, the receptivity of the public to new commodities; third, modernized distribution technique; fourth, increased purchasing power of the public; and, fifth, industrial research. . . . American industry and business have reached that status of well-being where it no longer has to fear a recurrence of the radical spreads from prosperity to depression that formerly afflicted business and industry.”<sup>14</sup>

More moderate, but definitely optimistic, was the opinion of Rexford Guy Tugwell, professor of economics at Columbia University, who later became a major prophet of Nirairism:

“Depressions continue to recur. They seem, however, to lessen in extent. . . . Some of their worst effects may be said to have been mitigated. . . . We seem to have made some considerable progress

toward correcting the swings of the rhythm and toward smoothing out the fluctuations in activity.”<sup>15</sup>

This confidence expressed itself in unlimited speculation. Much of the ballyhoo of prosperity was created by intellectuals and professional people, who were inflamed by their share of the “easy money” of speculation. One day before the stock market crashed in 1929, Prof. Irving Fisher said: “Current predictions of heavy reaction affecting the general level of securities find little if any foundation in fact.” The market will “return eventually to further steady increases,” and “gains are continuing into the future”—sentiments he repeated five weeks after the market crash, when he said there would be “no permanent ill effects” from the “false fear” created by the fall in stock prices.<sup>16</sup> The belief in prosperity everlasting was so strong that the depression, in its earlier stages, was not taken seriously. Said Colonel Leonard Ayres, bank economist: “It does not seem at all probable that the bear market of 1929 will be followed by any slowing down of business at all comparable with the old business depressions. The business and banking of 1929 are almost inconceivably strong.”<sup>17</sup>

Crudely expressed or subtly rationalized, the ballyhoo of the “new capitalism” evoked an enormous response. The “new” liberals and “progressives,” while they continued sniping at abuses, believed that prosperity, with all its shortcomings, was working toward the “larger good.” Thus Stuart Chase wrote just before prosperity crashed:

“The scene is at once ludicrous, arresting, inspiring, and always genuinely stimulating. . . . There is just a chance that America might whirl itself into the most breath-taking civilization which history has yet to record. . . . But to date the chief exhibit is activity.”<sup>18</sup>

The form is negative but the content positive: American capitalism may create a new social order. This appeared more clearly when Chase wrote, *after* the collapse of prosperity, that capitalism in the United States and communism in the Soviet Union “both in the last analysis have similar goals, of which the most immediate and important is the abolition of poverty.”<sup>19</sup> This is a conception as crude as those of any of the more vulgar myth-makers of prosperity. But the “new” liberals and “progressives” felt that American capitalism was different, exceptional, and that in some mysterious fashion all its own it would remake the world. The faith was lyrically and mystically expressed by Charles A. Beard in the concluding words of the *Rise of American Civilization*:

“Belief in unlimited progress—the continuous fulfillment of the historic idea . . . an invulnerable faith in democracy . . . a faith in

the efficacy of that new and mysterious instrument of the modern mind, 'the invention of invention,' moving from one technological triumph to another, effecting an ever wider distribution of the blessings of civilization—health, security, material goods, knowledge, leisure and esthetic appreciation, and through the cumulative forces of intellectual and artistic reactions, conjuring from the vasty deeps of the nameless and unknown creative imagination of the noblest order, subduing physical things to the empire of the spirit—doubting not the capacity of the Power that had summoned into being all patterns of the past and present, living and dead, to fulfill its endless destiny.

"If so, it is the dawn, not the dusk, of the gods."<sup>20</sup>

Within a few years the "dawn of the gods" appeared in the most disastrous and brutalizing of depressions, with 14,250,000 wage-workers and 3,000,000 clerical and professional workers (and their dependents) abandoned by Dr. Beard's deities. Now the prophets of state capitalism, including Dr. Beard himself, are invoking another dawn of the gods. . . .

Dr. Beard was, moreover, contradicted even by the pre-depression reality. Prosperity was unequally distributed, only meagrely shared by the workers and farmers. There was grinding poverty and terrible insecurity. Not only that: even if prosperity had been as great as its ballyhoo, it was still woefully incomplete, still far behind prevailing technical-economic resources. For capitalism *always* restricts production and consumption, the possibilities of abundance and leisure potential in the productive forces of society.

There was chaos in mining, textiles, and other industries, and increasing unemployment. The number of strikes decreased considerably, but the strikes that did occur were brutally suppressed. Poverty prevailed on a large scale. The deepening agricultural crisis made peasants of newer and larger groups of American farmers. The lightning of the Sacco-Vanzetti tragedy revealed the yawning gulfs of ruling-class savagery. But the mythology of prosperity, and particularly of rising speculative profits, cast a glow over the unpleasant aspects of economic reality.

Always, in one form or another, capitalism creates an ideology to disguise and justify its predatory character: it is a necessary device of class domination. Always there exists a deceptive millennial conception of capitalism. It accompanied the growth (and decay) of profit-sharing, flourished on the basis of the war-time controls of industry, and acquired magnificent scope in 1923-29. It appeared again in

the "new capitalism" of Nirraism, with only slight revisions in argument and style.

The pre-1929 myth-makers of prosperity did their job well. The ideology they created lingered, as a cultural hangover, after the breakdown of prosperity and helped to prevent any considerable revolt. As the ideology began to crumble under the impact of prolonged depression, it was revived and reinforced by the ballyhoo of the National Industrial Recovery Act. But when the ideology begins to crumble again, as it must, and the hopeless reality it disguises is revealed, the economic crisis of American capitalism will become a class and political crisis. We are witnessing not a "dawn of the gods" but the dawn of an era of momentous social struggle and change.

## The Meaning of Prosperity

THE crisis of American capitalism manifests itself as a crisis of prosperity. What *is* prosperity? It has three important characteristics: it is always limited in its mass scope, it periodically breaks down, and it cumulatively develops the elements of the decline of capitalism. This is clearly revealed by a survey of the movement and character of American prosperity, which necessarily becomes a survey of the major aspects of American capitalist development.

Capitalism in the United States came to real power with the Civil War and the progressive forces expressed and invigorated by that struggle. Earlier capitalism was still largely in the commercial stage. The commercial, not industrial, capitalist dominated the scene. Industry was not highly developed, and it was small-scale industry. Many industrial products were still imported; while foreign trade rose five-fold from 1820 to 1860, imports of manufactured goods rose six-fold.<sup>1</sup> The country was predominantly agrarian, and prosperity was primarily dependent upon agriculture (whether free or slave). There were still great unsettled regions and other regions only thinly settled. But industrial capitalism was developing rapidly; it played an important part in the crisis and depression of 1837 and a still more important part in the crisis and depression of 1857. As industrial capitalism grew it came into conflict with the South's control of the national government. Commercial capitalism could tolerate the control, as it was concerned essentially with the *buying* of goods, whether produced by free or slave labor, and it accepted the Southern demand for free trade because that permitted buying goods where they were cheapest. Industrial capitalism could not tolerate the slave South's control of the government, as it was concerned essentially with the *production* of goods and free trade threatened its markets, while it depended, moreover, upon mobile free wage-labor and needed a national banking system and transcontinental railroads, which the South opposed. Slavery not only repressed capitalism in the South, *but interfered with its expansion in the North and West*. The conflict was the irrepressible one of two social systems involving the antagonistic relations of slave labor and free wage labor. As territorial



expansion was necessary for the South, to broaden the economic and political bases of slavery, it antagonized the farmers (and workers) of the North and West who wanted "free soil" and who aligned themselves against the South. Pressed in and its expansion prevented by the development of Northern industry and agriculture, the South resorted to war. The Union victory crushed the political power of the slave South, but it simultaneously crushed the agrarian democracy of Jefferson and Jackson. For the coming to power of industrial capitalism subordinated agriculture to industry, and the costs of industrialism were piled on the farmers (and workers). The war accelerated the development of Northern industry, particularly in iron and steel and textiles, and it was increasingly large-scale industry. Within forty years American capitalism, economically and politically dominant, was the mightiest in the world. Prosperity was now overwhelmingly determined by the movement and the interests of capitalist industrialism.

Prosperity in the North flourished during the Civil War. Business failures and liabilities were negligible. Real profits in trade ranged from 12% to 15%.<sup>2</sup> Manufactures yielded exceptional profits: the dividends of a group of textile corporations, which averaged 8% in 1861, rose to 25% and 50%, while iron and steel profits were nearly as high.<sup>3</sup> Great fortunes were made by profiteering in industry, exploiting the government's war needs, and speculating in the commodity and stock markets. The national wealth and income were redistributed, and their concentration increased, by rising prices and speculative profits. Accumulation of capital was unusually active. The war industries enlarged their capital equipment because of the greater scale of operation. But production as a whole was practically stationary. The increase of output in the war industries was offset by decreases in other industries, while the increasing output of capital goods was accompanied by a decrease in consumption goods. Sharply rising prices cut real wages, which by 1865 were probably one-third below the 1860 level,<sup>4</sup> seriously reducing the workers' purchasing power and consumption. This was true also of the farmers, the prices of whose products rose less than the prices of products they had to buy. Luxury consumption rose but consumption in general fell;<sup>5</sup> for while production was stationary, an increasingly larger part of manufacturing output was used for capital goods and for the destructive purposes of war. Prosperity during the Civil War was thus marked by stationary production, lower real wages, and lower mass consumption, by mass impoverishment instead of improved mass well-being.

But profits were high and the accumulation of capital correspondingly great. There was, particularly, a marked growth in money capital (most of it invested in government war bonds), whose real value was raised by the post-war fall in prices.

The prosperity of the Civil War period was based upon an artificial equilibrium created by the war's demands for goods and capital. An almost inexhaustible market was provided by the government's orders for munitions and other war goods. The industries producing these goods could augment their output without worrying about markets; and this meant also an augmenting of capital equipment. Depreciation of the currency, by lowering real wages, deprived the workers of part of their consumption: more war materials could be produced, and more capital goods for whose output the war provided a market. The issuance of paper money, moreover, gave the government new purchasing power (in addition to taxation and loans), which was spent on the output of war industries, whose scale of production and, consequently, capital equipment, was further enlarged. Profits not invested directly in capital goods were invested in government bonds and increased the government's spending, while the bonds remained as money capital for use in the future.\* This equilibrium created by the war was upset by the peace; two years of minor depression prevailed in 1866-67. Then prosperity surged upward.

The new period of prosperity was greatly influenced by the war's results. Capital was abundant and investment opportunities ample. Building construction, neglected during the war, led the upward movement, and stimulated the production of brick, lumber, glass, and similar products. Railroad construction was equally active, mileage doubling in six years. These two movements dominated the revival and prosperity. The import of capital stimulated railroad construction and favorably affected foreign trade. Prices fell sharply and real wages by 1872 were much higher than in 1865 and even higher than in 1860,<sup>6</sup> and the resulting increase in mass purchasing power promoted the production and sale of consumption goods. The fall

\* The situation was altogether different in the South. Industry was not highly developed. The war's direct destruction was immense. While there was an accumulation of money capital in the form of government bonds, their value was destroyed by the Confederacy's downfall. Reconstruction involved an economic plundering of the South, as well as the breaking of its political power. After Reconstruction, semi-servile Negro labor was reintroduced, with the permissive consent of the Northern capitalists, who shamelessly forgot all about the Negro. Industrialization in the South did not really begin until the 1890's, because the South was economically prostrate and its industrial development unimportant, as yet, to the capitalism of the North, except for railroads.

in prices also raised the real value of money capital accumulated during the war, augmenting investment and the output of capital goods. Industrialization proceeded rapidly; the output of machinery and other forms of capital goods was increased greatly by the mechanization of old industries and the development of new industries (iron and steel, boots and shoes, glass, petroleum, mining, mechanical transport equipment, milling, refrigeration, meat packing, and agricultural implements). Technological efficiency and the productivity of labor rose substantially. This increasing output and absorption of capital goods meant an active conversion of profits into capital. It takes time, particularly in the case of construction and railroads, for new capital goods to make any demands on consumer purchasing power. But the production of capital goods creates consumer purchasing power (wages, part of salaries and profits), which is spent mainly on the output of consumption goods industries. Thus an equilibrium is achieved which sustains prosperity. But the equilibrium is unstable and temporary. For wages lagged behind profits and production behind consumption. Eventually the new capital goods threw an augmented mass of products upon the markets, and available consumer purchasing power was insufficient to absorb them. The output of capital goods began to fall. Construction and railroads, which had been seriously overbuilt, led the downward movement. As production began to fall it engendered a crisis and revealed the rotten conditions in finance. The collapse of speculation, particularly in railroad securities, set the panic in motion: the failure of the great banking house of Jay Cooke and Company was mainly due to its enormous holdings of Northern Pacific Railroad paper. Financial crisis arose out of the underlying economic crisis. Prosperity crashed into depression: hard times, unemployment, and mass misery prevailed from 1873 to 1879.

From 1866 to 1897 there were fourteen years of prosperity and seventeen years of depression—three minor depressions (1866–67, 1883–85, 1890–91) and two major depressions (1873–79, 1893–97).<sup>7</sup> Depression and prosperity, and the period as a whole, were affected by long-time factors of economic expansion, which provided increasingly larger markets for goods and capital, and insured, until temporarily limited by depression, the making of increasingly higher profits and their conversion into capital.

Production, in spite of cyclical interruptions, mounted steadily. The output of manufactures rose from \$3,386 million in 1869 to \$9,372 million in 1889.<sup>8</sup> Profits were high. Small businessmen complained of severe competition and low profits, but that was mainly because they



were oppressed by the big producers and monopolist combinations, whose profits were all the larger. Profits often appeared small in terms of over-capitalization, as in the complaint that railroad dividends were very low; but practically all railroad stocks represented "water" and not any real investment; they were the "wages of abstinence" appropriated by buccaneering promoters and managements. The output of capital goods scored an average yearly increase (quantitative) of 7.2% in 1870-90 compared with only 4.8% in 1850-60.<sup>9</sup> Labor's productivity rose constantly; from 1870 to 1880 alone it increased 50% in mining, 85% in manufactures and 110% in transportation.<sup>10</sup>

Real wages scored the largest gains in American history. By 1868 real wages had made good the war losses and in 1869 began to mount over pre-war levels. There were interruptions, when wages fell, particularly in the depression of 1873-79, but they rose in each period of prosperity and in the period as a whole. By 1892 real wages were much higher than in 1860, although nearly stationary since 1887. Gains in real wages were almost wholly a result of falling prices. The index of average hourly wage rates rose from 61 in 1865 to 69 in 1872, fell steadily to 59 in 1879, and rose again to 69 in 1892.<sup>11</sup> Wage gains were unevenly distributed, skilled workers gaining more than the unskilled and the organized more than the unorganized, while immigrant workers were forced to accept the lowest of low wages; unemployment, moreover, both cyclical and technological, offset much of the wage rise.

Consumption also rose more than in any other period in American history. The average yearly increase per capita was 5.4% in 1870-80 and 3.2% in 1880-90.<sup>12</sup> Part of the rise represented a change from the use of goods produced at home or in neighborhood shops to the use of manufactured goods, particularly among farmers. But a considerable part represented the increase in labor's consumption due to higher real wages. Other classes, however, gained more than labor. Among the newly rich there was an outburst of conspicuous competitive consumption (particularly among speculators and other financial buccaneers), which flaunted itself in the face of workers who, despite higher real wages, were tormented by real poverty further aggravated by recurrent unemployment.

While labor shared in the gains of higher productivity, the capitalists secured the lion's share. Renewed concentration of income appeared in each period of prosperity; the number of millionaires rose from probably 500 in 1860 to over 4,000 in 1892. Nor was higher productivity the primary cause of higher real wages; they rose because of

steadily falling prices, and in spite of employers repeatedly cutting money wages, particularly in depressions. Wage cuts and cyclical and technological unemployment provoked strikes which frequently assumed the aspect of civil war. Railroad managements violently fought their workers in the great strikes of 1877, and the workers opposed violence to the violence of the troops and police; Jay Gould broke the telegraphers' strike and helped to crush the Knights of Labor; the eight-hour movement met merciless opposition and ended in the Haymarket tragedy; Carnegie and Frick mobilized hired gunmen against the Homestead strikers; President Cleveland used Federal troops to break the Pullman strike, during which the injunction was effectively used as a capitalist weapon in labor disputes. Labor's militancy *forced* higher real wages upon the employers: the resistance prevented money wages being cut more than they were, falling prices raised the purchasing power of wages, and lower prices and higher wages compelled the employers to increase the productivity of labor to secure higher profits. There is no direct or necessary connection between higher productivity and higher wages; rising prices and higher productivity are usually accompanied by stationary or falling real wages. Labor's gains (*always* subsidiary to capitalist exploitation and profit) were wrung from the capitalists by means of the blood and agony of strikes against which the state mobilized its physical and legal force.

Nor did the farmers share fully in prosperity, except the capitalist and speculative upper layers. Agricultural prices fell, surplus crops mounted, the burden of debt became staggering. Although their numbers increased, the farmers' share of the national income decreased. Tenancy rose from 25.6% in 1880 to 35.3% in 1900.<sup>13</sup> These conditions produced the agrarian uprisings of the 1870's-90's.\*

The developments which produced prosperity also and necessarily produced disastrous depressions: they are the inseparables of capitalism. Industrialization proceeded haphazardly, competitively, socially unplanned and unregulated. The expansion of industry and accumulation of capital exceeded balanced requirements. As new industries

\* "For nearly the whole thirty years of the seventies, eighties and nineties, American agriculture, though it extended its horizons almost boundlessly, was in reality being operated at a small profit or none at all. The only thing that sustained the individual farmer was the constant appreciation of land values. . . . The high value of his land permitted him to convert his floating debts into mortgages with the result that the mortgage indebtedness was becoming heavier every year. . . . A larger and larger share of the farmer's crops (because of his indebtedness and the increased valuation of his land) went for the payment of interest charges and taxes." Louis M. Hacker and Benjamin B. Kendrick, *The United States Since 1865* (1932), p. 179.

(including railroads) developed they stimulated prosperity by absorbing capital goods and creating new purchasing power. But eventually they got out of balance with each other and with other industries, lessened their demands for capital goods, and strained the capacity of existing markets to absorb their output; for industry as a whole disbursed more investment than consumption income. Excessive accumulation and overproduction, sharpening the disparity between production and consumption, upset the always unstable equilibrium which is capitalist prosperity. Prosperity turned into one depression after another. Depression lowered or wiped out profits, destroyed or depreciated large amounts of capital and thus prepared recovery and a renewal of accumulation. Depression had other effects. Manufacturers were forced to adopt more efficient methods of production to insure profits, which created a demand for new and more efficient capital goods, while old equipment was scrapped. Many capitalists were eliminated, but the survivors became stronger. Thus concentration of industry, a result of increasing large-scale industrialization, was strengthened by depression, a mighty lever of the centralization of capital.

Out of the process of capitalist production and accumulation as a whole arose a constantly greater tendency toward monopoly. The Civil War accelerated the growth of large-scale industry because of the heavy demands for war materials, making necessary more efficiency, larger plants, the investment of more capital, and the consolidation of plants. This movement was strengthened by the increasing standardization and quantity production of goods. In the post-war period falling prices and intensified competition encouraged the growth of large-scale industry; they emphasized the underlying necessity of capitalist production for greater efficiency, lower costs, and higher profits, which means an enlargement of the scale of production and, consequently, of capital equipment. As industry became larger it resorted more and more to the corporate form of organization, facilitating the consolidation and combination of industrial enterprises. The trustification of industry began, and the emergence of monopoly, an outcome of efforts to beat down competitors, control markets and prices, and "earn" higher profits. By 1897 there were 82 industrial combinations with a capitalization of \$1,000 million; in the three years 1898-1900 eleven great combinations were formed with a capitalization of \$1,140 million; and the greatest combination of all, the United States Steel Corporation, appeared in 1901 with a capitalization of \$1,400 million.<sup>14</sup> The development of trustification and

monopoly was accompanied by the multiplication of stockholders, deprived of any direct economic functions, and by the resulting separation of ownership and management. Management became the function of corporate employees. Control was usurped by financial capitalists, who increasingly operated through the great banking houses and who consolidated their control with interlocking directorates. For, as formerly the industrial capitalist replaced the commercial capitalist as the dominant factor, so now the industrial capitalist (except in small-scale industry) was being beaten down or transformed into a financial capitalist, who is deprived of all constructive industrial functions and prefers speculation to production. Monopoly, by extorting higher profits, increasing the disparity between production and consumption, and waging war upon small-scale industry, aggravated instability and the forces making for cyclical crisis and breakdown; and by the power to protect itself from the deflation and liquidation which are the preconditions of revival, monopoly tended to prolong depression. Moreover, by raising prices, restricting production and demand, and limiting technical progress, monopoly was identified with the elements of the decline of capitalism.

But the elements of decline were held in check by an important peculiarity of American capitalism: Monopoly appeared in the midst of *developing* industrialization and renewed expansion of the frontier, which was bound up with the continued growth of agriculture. Industrialization in the East was proceeding rapidly in the years 1870-90: and within the same period monopoly arose, although ordinarily there is an appreciable time lag. The highly industrial Eastern states would have produced imperialism and the tendency toward decline, but the frontier's expansion provided the opportunity to develop inner continental areas and resources. This stimulated railroad construction and absorbed large amounts of agricultural equipment. New markets were created by new settlements and the inflow of immigrants. The exploitation of agriculture provided cheap food for the workers, which raised their real wages without any cost to the capitalists, and the exports with which to pay for the imports of capital so necessary to rapid industrialization. Thus the inner continental areas, whose development provided markets for both capital goods and consumption goods, invigorated the long-time factors of economic expansion. These factors not only stimulated the upward movement of prosperity after depression, they also overcame, for the time being, the elements of decline identified with monopoly capitalism. . . .

While the periods of prosperity, and the period as a whole, in the



years 1866–92, were marked by a simultaneous, if uneven, increase in production, productivity, profits, real wages, and mass consumption, this was not true of the years 1898–1914.

The depression of 1893–97 coincided with the measurable exhaustion of the long-time factors underlying the movement of economic expansion, accumulation of capital, and prosperity, particularly with the closing of the frontier. (There was further industrialization in the Western regions and its beginnings in the Southern states, but neither was on a scale capable of stimulating an unusual upsurge of prosperity.) Railroad construction declined considerably in its rate of growth. No great expansion appeared in new or old industries, with the exception of electric power, which, however, grew slowly. But monopoly consolidated its domination and prepared new conquests; it “recapitalized” industry, scooped in enormous profits, and relatively hampered the growth of productive forces. Imperialism began to emerge and shape American policy. Although capital was still imported, there was a considerable export of capital: American foreign investments by 1912 amounted to \$2,000 million compared with \$500 million in 1900.<sup>15</sup> Practically all the export of capital was in the form of direct investments by monopolist combinations, to develop new markets, establish branch plants, control sources of raw materials, and secure larger profits. Exports of manufactured goods increased rapidly; exports of crude foodstuffs decreased. Monopolist combinations organized and integrated production; but the planning, wholly within the limits of particular enterprises, sharpened competition and speculation, and aggravated all the contradictions of accumulation and prosperity. Businessmen, economists, and speculators spoke of a “new economic era,” of prosperity everlasting. At a dinner where J. Pierpont Morgan was the honored guest, John B. Claffin, millionaire merchant, said:

“With a man like Mr. Morgan at the head of a great industry, as against the old plan of many diverse interests in it, production will become more regular . . . and panics become a thing of the past.”<sup>16</sup>

But prosperity sagged in the minor depression of 1903–04 and crashed in the major depression of 1907–08. In New York City alone there were 100,000 unemployed, innumerable breadlines, and men “eager to work for 35 cents a day.”<sup>17</sup> Clever people organized the “Sunshine Movement”—think prosperity and prosperity will revive! The depression was not as severe and prolonged as the two preceding major depressions. *But there was no upsurge of prosperity: recovery was on a relatively lower level.* Only fitful prosperity prevailed from

1909 to 1914, accompanied by unusually large unemployment: a "depressed" prosperity, the indication of economic decline. One element of this decline was monopoly capitalism. The financial capitalists, with the elder Morgan at their head, who had "settled" the financial panic of 1907 but were unable to influence the revival of prosperity, used the opportunity to extend and consolidate the power of monopoly. This power, by interfering with the free play of economic forces and preventing complete liquidation, hampered recovery, emphasized by lack of an upsurge in the long-time factors of expansion. Monopoly capitalism became more interested in the export of capital, more definitely imperialist. Backed by the diplomacy of the Taft Administration, American imperialism issued its challenge to the European imperialist powers, demanding the "right" to share in Chinese loans and concessions. The elements of decline appear clearly in the fact that *the average yearly increase in production was only 4.6% in the five years 1909-13 compared with 7.6% in the five years 1902-06.*<sup>18</sup> There was a flattening in the rate of growth of production, which continued after the World War.

Crises tend to become constantly more severe; but their severity is expressed not only in the spread of the swings from prosperity to depression, but also in the level of prosperity after recovery. In post-war Europe the cyclical swings were not great, yet during the whole period, both in prosperity and depression, the tendency was for the general crisis of capitalism to become more acute and for permanent unemployment to increase—clear indications of the decline of capitalism. . . .

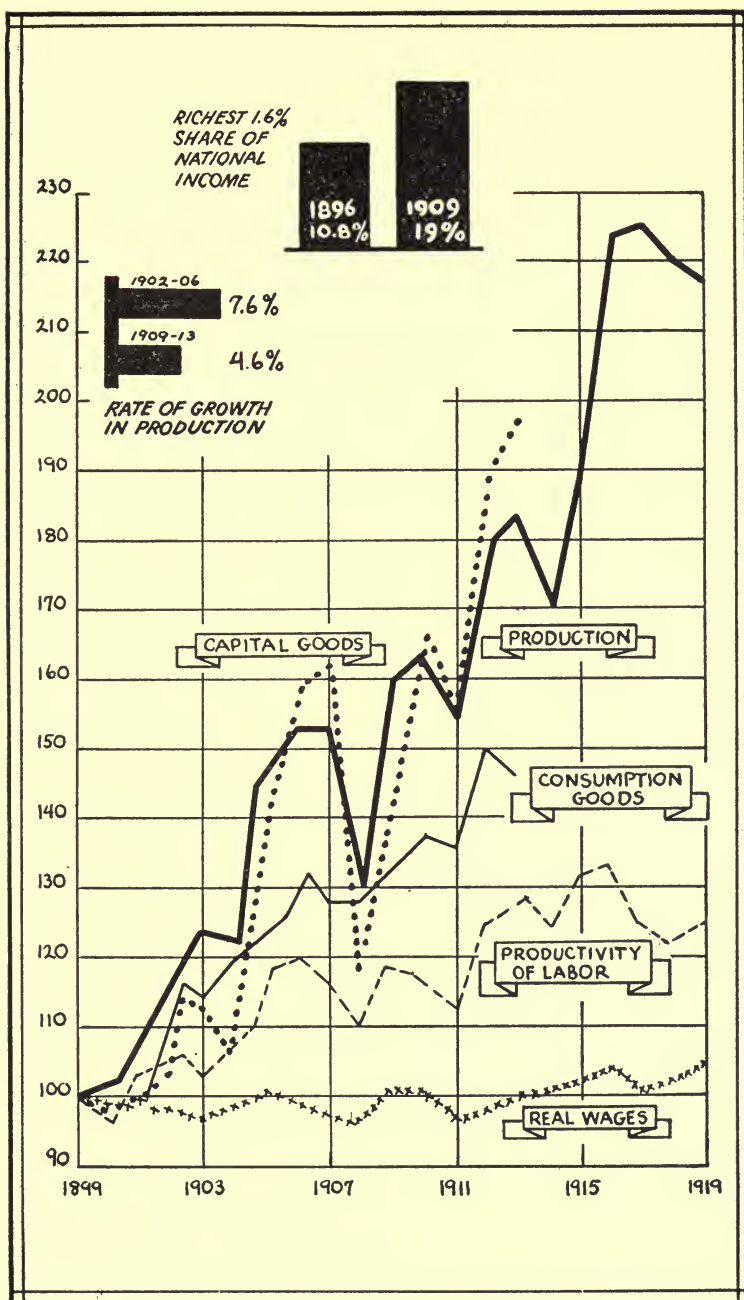
In spite of relative economic decline, the output of industry and the productivity of labor scored substantial gains in the years 1899-1914, although they were much lower than in the preceding period. Manufactures rose 65.6% and output per wage-worker 19.9%;<sup>19</sup> the increases in mining and on the railroads were slightly higher. The comparatively small rise in the productivity of labor was due mainly to two factors: the practices of capitalist monopoly, which tend to hamper technical progress; and absence of the stimulus to efficiency of falling prices, as rising prices assured rising profits (although part of the rise was not real because of the depreciated value of money). Stock prices rose. An investment, in 1901, of \$10,000 in the common stocks of 93 industrial, public utility, and railroad corporations yielded, by 1913, cash income of \$8,661 plus an increase of 36% in capital value.<sup>20</sup> The rise was much greater in the prices of stocks of monopolist combinations, because of monopoly prices. Recapitalized com-

binations, such as the United States Steel Corporation, squeezed the "water" out of their stock by reinvestment of part of their great earnings. While the real income of all wage-workers increased an average of only 0.4% yearly and that of workers in manufactures decreased 0.1%, the real income of stockholders increased 1.2%.<sup>21</sup>

Thus prosperity, although limited by the elements of economic decline, was accompanied by increasingly higher production, productivity, and profits, but *not* by increasingly higher real wages. Real wages were practically stationary, except for small gains among small groups of organized skilled workers. Money wages rose, but their purchasing power was cut by rising prices, while a slight increase in real hourly earnings was offset by shorter working time. Real yearly earnings in the years 1898-1906 averaged 3% below the 1891 level; they fell in the 1907-08 depression and rose again, but were only a trifle above the level of 1891.<sup>22</sup> Labor did not share in the gains of rising production and productivity.

The working class received a decreasing share of the national income, while the concentration of income rose considerably. In spite of the expropriation of independent small producers, the middle class increased its share of the national income, as a result of the growth of the "new" middle class of technical, supervisory, and managerial employees in corporate and trustified industry, of employees in the distributive trades, and of persons in professional occupations. Rising prices (and a relative restriction of agricultural production) favored the farmers, as the rise in the price of farm products was greater than the price rise of industrial products. While the farmers constituted a decreasing proportion of the gainfully occupied, they increased their share of the national income 14% per capita. Not all farmers made gains, however: prosperity was concentrated in the upper layers; the rise in capital costs exceeded the rise in prices; and tenancy rose from 35.3% in 1900 to 37% in 1910.<sup>23</sup> The largest gains were scored by the richest 1.6% of the population, the upper capitalist bourgeoisie, whose share of the national income rose from 10.8% in 1896 to 19% in 1909.<sup>24</sup> All classes shared in prosperity except the wage-workers (hired farm laborers, however, made some small gains in real earnings).

While consumption among workers was stationary or downward, there was an increase in general social consumption. It was, however, considerably smaller than in the preceding period. Consumption rose an average of only 1.9% per capita in 1900-1910, compared with 4.3% in 1870-90.<sup>25</sup> Another estimate, covering the years 1901-14, indicates an average yearly increase in consumption of only 0.6%.<sup>26</sup> Produc-



I. MAJOR ECONOMIC TRENDS—1896-1919.



tion was stimulated more by the output of capital goods than by the output of consumption goods: where the former made an average yearly gain of 5%, the latter made a gain of only 2.6%.<sup>27</sup> Accumulation of capital increased more than production; and prosperity was based primarily on the production of capital goods and of consumption goods whose increase was absorbed by non-workers.

The opinion was general, even in non-labor circles, that the workers had gained little if anything (except a small gain from shorter hours) in recent years. One liberal economist said:

"There is nothing in the facts . . . which can give the wage-workers cause for rejoicing. The doctrine so popular in certain quarters that while the rich have grown rapidly richer in recent years the poor have also steadily risen in the scale of economic welfare has no foundation in fact."<sup>28</sup>

Another liberal economist, stressing the same facts, almost developed a class conception of prosperity:

"It is perfectly possible, as history has repeatedly demonstrated, for the standard of living of a society as a whole to be improving while that of one or more groups within the society is declining. Moreover, if the distribution of economic power within a society is very unequal, it may happen that the group, the standard of which is declining, may constitute a very large proportion, even a majority, of the total population."<sup>29</sup>

Prosperity is not simply an economic category; its decisive aspects are class-political, its distribution determined by class power and the class struggle in general and by capitalist domination in particular.

A new upflare of labor militancy marked these years. Strikes were many and bitterly fought. Manufacturers' associations waged ruthless war on trade unions, while the unions moved toward more militant policies and action. Economic decline, the unequal distribution of prosperity, and the growing stratification of classes resulted in an increase of the socialist vote and a rallying of more radical workers to the Industrial Workers of the World. Dissatisfied labor, unclear about class purposes and means, largely merged itself in the progressive revolt against the trusts—the last stand of the older competitive and agrarian capitalism which since the 1880's had been urging the government to smash or regulate corporate combinations: *individualist* middle class and agrarian radicals demanded *collective* state action to assure *free* competition! This movement became itself the means of defeating the purposes of its sponsors. Theodore Roosevelt used the movement to impose forms of regulation which consolidated the sys-

tem of industrial and financial centralization, of monopoly capitalism;\* the revolt of the small producers and farmers ended in their complete subjection, because of the economic weight of capitalist monopoly and its political power, expressed in the Supreme Court's decision to apply the "rule of reason" to the trusts. The complex relations of monopoly capitalism and its tendency to aggravate contradictions and produce economic decline made indispensable some measures of state intervention and regulation (the initial stages of state capitalism), but the measures were primarily in the interests of monopoly capitalism. Regulation was weakened in the fat years of post-war prosperity, but the depression and economic decline resulted in the need and demand for more regulation, more state capitalism. This newer regulation, unlike the old, openly accepts monopoly capitalism; according to an outstanding spokesman of the National Recovery Act and its institutional proposals:

"We are resolved to recognize openly that competition in most of its forms is wasteful and costly; that larger combinations must in any modern society prevail. We go further: we say that they should be allowed to prevail, but only under such conditions of control as assure a just distribution of the wealth they develop and now accumulate to the people as a whole."<sup>30</sup>

Formerly the "just distribution of wealth" was to be assured by measures to restore or "protect" competition, now by "control" of monopoly; but the exploiting relations of capitalist production, particularly under conditions of economic decline, determine the repetition of the older experience: the strengthening of monopoly capitalism and the more unequal distribution of wealth. . . .

The years 1915-18 were marked by "war prosperity," which prevented another major depression and temporarily overcame the tendency to economic decline. War markets were almost inexhaustible. Production, profits, and the accumulation of capital surged upward. Manufacturing output averaged 31.7% higher than in 1913 and total production 23.5% higher.<sup>31</sup> Profits were extraordinarily high in 1916,

\* Roosevelt, in relation to the trusts, spoke big but carried a small stick; he practiced an essentially Fascist technique of using middle-class discontent to strengthen the forces against which the discontent was directed. His program was opposed by the more stupidly reactionary captains of industry and finance. J. Pierpont Morgan was Roosevelt's great antagonist; at a Gridiron Club dinner to bring them together, the President, after outlining the action necessary to meet the revolt against Big Business, shook his fist in the financier's face and shouted: "And if you don't let us do this, those who will come after us will rise and bring you to ruin!" See Owen Wister, *Roosevelt, the Story of a Friendship* (1930), p. 212.

because of the war demands of belligerent Europe and the capture of its foreign markets by American exports. The concentration of income increased greatly: the number of incomes of \$100,000 and over rose from 2,290 in 1914 to 6,633 in 1916.<sup>32</sup> After the United States, interlocked with the world market and imperialism, entered the war, profits mounted again, although part of them was appropriated by the government in war taxation, while another part was reinvested to evade taxation. The distribution of profits was uneven; some industries were depressed while industries supplying war needs piled up large earnings, a new chemical industry was created, and most plants augmented or improved their productive equipment. Retail trade was prosperous. The accumulation of money capital, in the form of government bonds, was great, and, as after the Civil War, its real value was increased by the post-war fall in prices. Farmers gained from the upward movement of prices and European demand, and their share of the national income rose again (although the rise in land values, as the farmers capitalized prospective profits, prepared disaster). There was a large export of goods and of capital: the United States became a creditor nation. The World War not only influenced prosperity and the tendency to economic decline but also the very structure of American capitalism by forcing the maturity of three fundamental developments: the control of industry by monopolist combinations, the export of capital, and the emergence of imperialism as a dominant force.

Again labor did not share in prosperity (except in the form of greater employment).<sup>\*</sup> Real hourly earnings in 1915 increased 3% over 1914 but were stationary in the following year and decreased (over 1915) 6% in 1917 and 4% in 1918.<sup>33</sup> Because of labor shortage and consequent full-time employment and overtime, yearly earnings rose slightly, but there was no definite upward movement in real wages. In most occupations outside the war industries, real wages dropped considerably, especially in some union trades bound by long-term agreements.

The movement of consumption was downward; in 1910-20 it fell an average of 0.8% yearly, mainly during the war years.<sup>34</sup> The considerable increase in production was absorbed by luxury consumption and war needs, by exports to the Allies (paid for by loans, the export of capital), and by capital goods. Labor was excluded. . . .

<sup>\*</sup> Sharply rising prices and profits discouraged any substantial increase in productivity, which in 1919 was only 2.6% higher than in 1914. Frederick C. Mills, *Economic Tendencies in the United States* (1932), p. 192.

One thing is clear: increasingly higher wages and mass consumption are *not* inseparable accompaniments of prosperity. Of the seven periods of prosperity in the years 1860 to 1918, only three periods totaling fifteen years were marked by increasing real wages and mass consumption, while four periods totaling twenty-one years were marked by stationary or falling real wages and mass consumption. Including the periods of depression, real wages and mass consumption were stationary or fell during forty-three of the fifty-eight years of the period under survey. So-called prosperity may assume four forms under capitalism:

1. Increasingly higher real wages, consumption (including labor consumption), production, productivity, and profits.

2. Stationary or falling real wages, production, and consumption, but increasingly higher profits.

3. Increasingly higher production, consumption, and profits, but stationary or falling real wages, labor consumption, and labor standards of living.

4. Increasingly higher production and profits, but stationary real wages and consumption, the increase in production being absorbed by capital goods, the export of goods or the export of capital, or a combination of all three.

The productivity of labor rises in *all* four forms of prosperity. Only *one* of the four forms of prosperity, however, is accompanied by higher real wages and mass consumption. But *all* four forms of prosperity are accompanied by larger profits and accumulation of capital, which are *always* present: *they are prosperity* under capitalism.

As a class, the farmers (in spite of the great gains of some groups or individuals) did not share in the upward movement of prosperity in 1861-96, although the expansion of agriculture was a basic factor in prosperity. They shared in the gains thereafter up to and during the World War, mainly because of rising prices. But the farmers were definitely excluded in the post-war period: prosperity flourished while depression prevailed in agriculture.

Prosperity under capitalism is an economic condition which yields high profits and permits their conversion into capital by means of an increasing output and absorption of capital goods. These are the dynamics of capitalist production and prosperity. They depend, in final analysis, upon increasingly larger markets. But it is unimportant, in terms of capitalist prosperity, *who* composes the markets and *who* buys the goods, providing there *are* markets, sales, and profits. Consumption may increase among classes other than the workers. Goods



may be absorbed by conspicuous competitive consumption, useless and meretricious construction, and other forms of waste, which is an indispensable condition of capitalist production, by war, or by the export of goods and capital. The output of goods (and services), which under capitalism is always below the *possibilities* of the prevailing state of the industrial arts, is determined by the economic-class consideration of profit, not by any standards of what is socially most desirable and humanly most beneficial. Labor's gains are small: they are secured slowly and agonizingly, are interrupted by periods of prosperity in which the workers get none of the fruits of economic progress, and are wiped out in depression. For there is an inevitable and recurrent breakdown of prosperity, because the economic-class consideration of profit does not permit of a "balanced" development of production and consumption. Depression is a condition where production is temporarily unprofitable, profits are small, and their conversion into capital is restricted; the accumulation of capital lags, and therefore millions are thrown out of work and mass starvation prevails.

Thus, at the best, on the basis of previous experience, the prospect ahead is of a prosperity in which the workers (and the farmers and professionals) may not share or will share meagerly, followed by another depression in which they will suffer untold agony. But, in fact, the prospect is worse. In the past a higher level of prosperity arose after a depression, because the long-time factors of expansion stimulated an upward economic movement: profits were high, as the growth of new industries and the industrialization of new regions absorbed large amounts of capital goods and accelerated accumulation. Because of exhaustion of the long-time factors of expansion, prosperity must now be on a definitely lower basis, with lower profits, still lower wages, and greater unemployment. The prospect, then, is of a "depressed" form of prosperity worse than that which prevailed in 1909-1914. This necessarily means a crisis of the capitalist system. For the underlying cause of "depressed" prosperity, which is exhaustion of the long-time factors of expansion, is inseparably interlocked with the decline of capitalism.

## The Decline of Capitalism: General Survey

THE decline of capitalism was evident in Europe even before the crisis and depression which set in after 1929. A general economic crisis prevailed and cyclical prosperity was on a lower level than pre-war, while capitalism was crushed in the Soviet Union. Bourgeois economists, particularly in Germany, admitted and analyzed the elements of decline. In the United States, however, it was smugly assumed that economic decline was the lot of lesser breeds outside the law—the law of American prosperity everlasting. For hadn't American capitalism solved the problem of prosperity? There would not and could not be any more depressions and hard times: prosperity was eternal, world without end, and a new world around the corner. But when prosperity crashed in the United States, and crashed more severely than in Europe, where the already existing economic crisis was aggravated by the new cyclical breakdown, the sentiment was general that "capitalism is on trial." Some prophesied the crack o' doom, others argued that capitalism might survive if it "reformed" itself. In Europe it looked like the end; American prosperity had seemed as firm as the Rock of Gibraltar, and now it was overwhelmed by the seas of depression.\* A German bourgeois economist thus voiced the feeling of despair:

"Is the capitalist system really any longer justified if, in the richest country in the world, it is incapable of shaping an order which shall guarantee to a comparatively sparse population, admittedly industrious and capable, a subsistence consonant with the human needs developed by modern technique, without millions being from time to time reduced to beggary and dependence on soup kitchens and casual

\* American prosperity became a political issue in Europe. "Look," said the capitalists and their apologists (including leaders of the British Labor Party), "look at American prosperity: universal, increasing, everlasting! It shows what can be done by organized, enlightened capitalism. American prosperity realizes the spirit and promise of capitalism; the European economic crisis is the result of non-capitalist factors, an aftermath of war. Why go communist? Why not go American?" This song is no longer sung. But some of the apologists (including leaders of the British Labor Party) later sang the NRA song! Hope springs eternal in the breasts of reformers.

wards? . . . The crisis of economic policy may easily become a crisis of the economic system.”<sup>1</sup>

Underlying much of the American comment on the depression was the feeling that new and imponderable forces are at work involving a crisis, an economic decline, or at least its possibility. Some of the despair disappeared with the coming of manipulated and speculative revival. But the NRA was itself an expression and recognition of the crisis. And the feeling of despair reappeared after the breakdown of the revival. For the decline of American (and world) capitalism conditions recovery, limits its scope and dominates the future. Capitalist decline does not result in complete collapse, in an inability to function or to restore a measure of prosperity. The cyclical movement continues, but on a lower level, within the restricting circle of economic decline. This means a “depressed” prosperity, with increasing insecurity, unemployment, and instability; while economic, class, and international contradictions and antagonisms become sharper and more threatening. There may be spurts of unusual prosperity, but these will merely intensify the decline.

The decline of capitalism is the outcome neither of the depression nor of the World War. It was the fact of decline which gave the war its specific historical character—decline producing war and war reacting upon decline. The decline of capitalism is the outcome of general capitalist development and of the movement of social change. In long-time perspective, the decline of capitalism is determined by its having outgrown the historical necessity of its being. In the words of Prof. F. L. Schuman: “Western civilization is already old. It may already have run its course and be headed toward a long twilight of decline. In any case its problems are immediate, pressing, and threatening.”<sup>2</sup> This is a conclusion in terms of the future, not of a past compact of the wish-fulfillments of the agrarian-Junker reactionary, Oswald Spengler, whose lamentations, nevertheless, express the decline of capitalist culture. Minor social changes produce a situation where a major social change becomes necessary—the revolutionary substitution of the old order by the new. In short-time perspective, the decline of capitalism is determined by the high development of the productive forces and the relative exhaustion of the long-time factors of expansion. This imposes fetters upon the further development of industry, leads to a slackening rate of growth and eventually an absolute fall in production, and results in economic decline and social decay.

Capitalism appeared in history as a revolutionary force, waging war upon the economic, political, and cultural relations of feudalism.

Profits are the heart of capitalism, markets its circulating system; capitalist enterprise consequently required the transformation of production for use into production for profit and increasingly larger markets. Capitalist production also needed a free labor market of propertiless workers distinguished from serfs and slaves by their "freedom" to work for wages anywhere, which was accomplished by expropriating peasants from the soil and artisans from their means of labor. These changes upset the old productive relations and their class, political, and cultural expression. Feudalism was based upon a static agriculture under the domination of the nobility; the growth of a dynamic capitalist industry undermined both agriculture and the nobility. Feudal "collectivism" imposed restrictions upon capitalist enterprise; the ideological and spiritual sanctions of feudalism had to be broken, which meant a struggle against the old culture and religion. This movement was bound up with the necessity for freedom of enterprise and competition, of *laissez-faire*, individualism, and democracy: the revolutionary representatives of the bourgeoisie, transcending immediate needs, invoked an ideal of individualism and democracy which is now completely repudiated by imperialism and fascism. The commercial revolution, with its new attitudes and its need for more goods and more efficient production, stimulated experimental science and its technological application. Out of foreign trade, colonial conquest, and settlements overseas arose the world market, creating increasingly larger markets and profits. Bourgeois development was being hampered by the political power of the feudal nobility; the upper bourgeoisie faltered and compromised, but action was forced by the pressure of the lower bourgeoisie and the downtrodden peasants and urban workers: the nobility's political power was broken by means of violent revolution involving dictatorship and confiscation of feudal property. The social-economic changes were completed by the technical-economic changes of the industrial revolution. This revolution, alongside the brutal exploitation of men, women, and children in the new factory system, stripped production of its technical fetters (although capitalism imposed new fetters). Capitalism remade the world economically, politically, and culturally.

Once in power capitalism abandoned its revolutionary ideals: they now threatened its own vested class interests. These ideals had always had a limited practical application; thus *laissez-faire* was never wholly accepted by the bourgeoisie (except in England, when it was the workshop of the world) and capitalism resorted to protectionism, monopoly, and state aid. The bourgeoisie did not make a clean sweep



of feudalism. The older relations lingered on in agriculture, while the nobility, frequently enriched by the industrial utilization of minerals in their estates, and exploiting the parvenu spirit and political ineptitude of the bourgeoisie, clung to a considerable measure of power. Democracy was limited to *bourgeois* democracy. While developing as a condition favoring the social relations of capitalist production, democracy had also been an ideal and practice remaking the world; it was now limited, an ideology insuring capitalist domination, with labor forced to fight for democratic rights. Capitalism developed unevenly; it produced recurrent economic crises and wars, limited expansion of the home market in favor of the larger profits of overseas markets, including colonial exploitation, and repressed or ruined agriculture. (New expropriations, direct or indirect, of peasants from the soil supplied the human raw material of industrialism. Large numbers of expropriated peasants were forced by uneven and restricted industrialization to migrate to the new world, particularly the United States: thus American capitalism also played its rôle in the expropriation of the peasantry—in Europe.) The class which had flamed forth in revolution used its heritage in a fashion indicative of coming decline.

But these are the contradictory and antagonistic conditions of capitalist development. There was economic expansion in spite of recurrent crises and limitation of the home market, as well as an increasing technological application of science in spite of an inability to utilize fully the conquests of science and technology. Production increased enormously, the productivity of labor multiplied. Industry organized itself in large-scale enterprises, mobilizing large amounts of capital and labor, developing an inner corporate planning which contrasted sharply with the outer social anarchy of production. Capitalist industrialism spread (unevenly, piratically) over the whole world, extending the world market and changing national and class relations. The prospects of capitalist expansion and supremacy seemed unlimited, eternal, and this dream underlay the smugly unreal assumptions of bourgeois economic theory and the "hopeful" proposals of liberal and socialist reformism.

The nature of capitalist production, however, makes its development a perpetual struggle between the forces of expansion and decline, because of three fundamental factors:

1. Capitalist production depends upon profit, upon the accumulation of capital and increasing opportunities for its profitable investment. But accumulation tends to outstrip itself and limit the means

of profitably investing capital, which results in a periodical overproduction of capital goods.

2. The realization of profit depends upon increasingly larger markets to absorb the rising output of consumption goods, a necessary condition for an increasing absorption of capital goods. But capitalism tends to develop the forces of production beyond the forces of consumption; it cannot systematically and planfully balance production and consumption, which results in a periodical overproduction of consumption goods.

Thus the accumulation of capital and the resulting prosperity themselves become fetters on the further movement of expansion, accumulation, and prosperity. This is the fundamental cause of cyclical breakdowns. In these breakdowns there is an element of decline; they indicate the incapacity of capitalism to develop *all* the forces of industry, they express a definite, if temporary, exhaustion of economic progress, and they tend to become constantly more destructive in their upsets of prosperity. But the real element of decline appears in the third factor:

3. Capitalist production tends to exhaust the long-time factors of expansion and to limit, at first relatively, then absolutely, the possibilities of economic advance. Capitalist production *must* yield profits and these profits *must* be converted into capital by means of an increasing output and absorption of capital goods. This is the accumulation of capital. In its early stages, capitalist production seizes upon the most highly developed handicrafts, already producing for comparatively large markets, and destroys them by mechanizing their productive activities. The result is an increasing output and absorption of capital goods. Gradually all the older crafts are mechanized, which again means an increasing output and absorption of capital goods. Then the development of wholly new industries, the industrialization of new regions, and the mechanization of agriculture (although incompletely) create new and greater demands for capital goods. The working of these long-time factors of expansion results in an enlargement of the scale of production and in an increasing accumulation of capital. But as expansion is restricted or becomes exhausted, limits are imposed upon the possibilities of making profits and converting them into capital by means of an increasing output and absorption of capital goods. The resulting tendency toward economic decline is identified with monopoly and imperialism.

Capitalist monopoly arises out of the concentration of industry, which is accompanied by the massing of capital in large enterprises,

overdevelopment of productive capacity, limitation of the possibility of any considerable new expansion, and the intensification of competition. Profits are threatened. Monopoly answers the threat with control of markets, higher prices, limitation of output, and relative or absolute restriction of progress in technological efficiency. This is an element of decline, as it emphasizes the incapacity to develop fully all the forces of production and consumption. Another element of decline is monopoly's introduction of factors of rigidity (control of markets and prices, limitation of competition, resistance to liquidation in depression) into the structure of capitalism, whose basic requirement is the flexibility involved in the free play of economic forces.

Monopoly is identified with another aspect of capitalist decline: the export of capital and imperialism, the struggle to control foreign markets capable of absorbing surplus goods and surplus capital. This surplus of capitalist industry becomes constantly greater and more menacing as the inner long-time factors of expansion approach exhaustion. It becomes necessary to "industrialize" economically backward regions to absorb capital and goods (particularly the former) which are unabsorbable in the home market. Thus capitalism comes increasingly to depend upon exploitation of outer, the international, long-time factors of expansion. Where the older industrial nations of Europe once sought foreign outlets mainly for goods, the basis of the older colonialism, they began after the 1870's to seek outlets mainly for capital, the basis of imperialism. An increasing amount of capital and capital goods, produced by the older nations, was absorbed by mining, communications, public works, plantations, and factories in colonial and other economically backward regions. These regions, as a result of industrialization, also increased their imports of consumption goods. But while the export of capital and imperialism in their early stages stimulated home industry, by offsetting exhaustion of the inner factors of expansion, the final result, particularly when the export of capital became primarily an export of interest "earned" on previously exported capital, was to slow down the rate of inner economic growth. Imperialism, moreover, tends quickly to exhaust the international long-time factors of expansion, and strengthens the tendency of capitalism to decline.

Capitalist decline appeared in Europe in the years 1900-14. One of the factors in the decline was the advance of industrialism in countries which formerly met with imports their needs for manufactured goods and capital. The situation was aggravated by the intensification of competition in the world's markets. While economically backward

countries increased their demands for goods and capital, there were now many more industrial countries and a larger mass of surplus capital and goods to supply the needs. This restricted the production of profits and their conversion into capital, and capitalist decline became more definite and threatening.

The economic upswing after the 1860's materially improved the conditions of the workers (the basis of reformism in the trade union and socialist movements). Now the improvements virtually ceased, real wages were almost stationary, and permanent unemployment increased, a surplus population for which capitalist industry could not provide work.

As the output of surplus goods and capital mounted and markets became relatively still more limited, the struggle of imperialist nations for control of the world's markets led inexorably to the catastrophe of the World War. The war clearly revealed the decline, decay, and reaction of imperialist capitalism. One hundred years earlier, the Napoleonic wars had an objectively progressive character, an expression of the lusty youth of capitalism, breaking down surviving feudal barriers and preparing an economic upswing. The World War expressed the decadent old age of capitalism. Never did a war have more progressive pretensions and a more reactionary character. As a result of the struggle for imperialist power, the war weakened all the European nations and intensified the decline of capitalism: its legacy was the post-war chronic economic crisis. The war's progressive pretensions ("End war!"—"Make the world safe for democracy!") were mocked by the general reaction it unloosed—including fascism, the most violent expression of the decline of capitalism, to whose support it mobilizes all the most sinister and reactionary elements.

But economic and social decline is a dialectical process. The forces of a new economic, class, and social synthesis appear alongside the forces of decline and begin a struggle for mastery. In the midst of feudal decline the new capitalist order shaped itself and began its struggle for power. At the basis of the decline of capitalism are the contradictions and antagonisms arising out of the new social relations of production, which clash with the old relations of private property and individual appropriation. These social relations of production, expressed in large-scale corporate industry and its accompaniments, produce monopoly capitalism and imperialism, but they are also an objective socialization of industry which is the basis for socialism and the coming to power of the working class. The World War led to the conquest of power by the working class in Russia, to revolutionary



struggles in Europe and among colonial peoples—an indication of capitalist decline emphasized and aggravated, particularly during the most disastrous of depressions, by the building of socialism in the Soviet Union. And to combat decline and revolution, the capitalist class resorts to fascism, the complete repudiation of all the ideals for which capitalism fought during its revolutionary youth. . . .

In its origins, growth, and decline, American capitalism has always been bound up with the capitalism of Europe. They have been different, yet the same; the peculiarities of American capitalism have merely (but this is important!) affected the scope and tempo of its growth and decline.

American civilization arose out of the revolutionary youth of capitalism. The colonial settlers were thrust forth by the mass migrations set in motion by the transformation of feudalism; they were overseas builders of the new order being created in Europe. (The early Puritans were not the sanctimonious weaklings pictured by the wishy-washy esthetes of to-day, but bourgeois rebels in whose blood was the iron of Cromwell's revolutionary vigor.) Not only were the colonies a product of revolution, they secured their independence through revolution, and the capitalism of the new nation consolidated its power in the essentially revolutionary struggle of the Civil War and Reconstruction.

American capitalism, unlike the European, was not fettered by feudal hangovers or compromise with the nobility. The great colonial landed estates, which attempted to introduce feudal relations, were undermined by, because dependent upon, the commercial revolution; they could not survive in the new world of unrestricted freedom of enterprise (except in the South, where Negro slavery altered the situation and where pre-capitalist conditions were allowed to linger after northern industrial capitalism consolidated its political power in the Civil War and Reconstruction). Bourgeois individualism and democracy developed more freely and fully than in Europe. An almost "pure" capitalist ideology arose, which permitted and justified unrestricted exploitation and accumulation. Feudal hangovers, class and ideological, measurably restricted capitalist development in Europe; even in England, where the aristocracy, more than elsewhere, merged into the new ruling class. Feudal elements favored "reforms" in order to strike at their capitalist rivals; certain aspects of industrialism were condemned and regulated, and ideas of the absolutist state interfered with freedom of enterprise. (The earlier absolutist state, however, had aided the development of capitalism, and it later did so again in Ger-

many and Japan.) American capitalism suffered from no such restrictions. The government let enterprise alone, except where it helped—with tariffs and with grants of money and public lands to railroads, turning over the nation's vast natural resources to private enterprise.

The American economy and the American dream were greatly invigorated by the renewed expansion of the frontier. But there have been other frontiers in history, yielding other results. The frontier was one of the factors shaping the sectional forms assumed by some of the underlying economic and class interests and class struggles; this was important, but only in the peculiar forms it gave to the complex of interests and struggles in a capitalist economy. It is doubtful if pioneer life, except in the sense of personal enterprise and change, was marked by any great individualism; but the frontier strengthened the individualism of American life by its multiplication of economic opportunities—free land, the rise of petty industrial enterprise after it began to lag in the older regions, the impulse given to rising. While the frontier had some direct influence in shaping classes and ideology, its major significance lay in its influence on the growth of capitalism, in its contribution to the long-time factors of economic expansion. Exploitation of the inner continental areas and resources quickened the tempo and enlarged the economic basis of American capitalist development. Without this, however, the frontier would have been a totally different thing, restricted in scope and results. For capitalist development provided the markets for the agricultural (and mining) products of the frontier; and, incidentally, opportunities for farmers' sons to rise in the swiftly growing urban centers.

In one of its most important aspects the frontier meant the expansion of agriculture. The exploitation of agriculture is inseparably associated with capitalist growth: it provided a labor supply, cheap food and raw materials, and markets, and it bore the brunt of the costs of industrialization and accumulation in their earlier stages. In the industrial nations of Europe (particularly England), the possibilities of expansion in agriculture were quickly exhausted, making necessary an increasing export of manufactured goods and import of agricultural products. In the United States, agriculture was continuously expanding, aided by the inflow of European labor. The number of American farms rose from 1,449,000 in 1850 to 5,737,000 in 1900, their acreage from 293 million to 838 million, and their value from \$3,967 million to \$20,439 million; the value in 1900 included \$4,306 million of buildings and equipment.<sup>3</sup> This great agrarian development was a tremendous factor in the upswing of American industry



and prosperity. In 1879 the large exports of wheat, the result of a serious grain shortage in Europe which created an increased demand and higher prices for American wheat, played an important part in the revival and upward movement of prosperity.<sup>4</sup> The farmers bought large amounts of capital goods in the form of agricultural equipment. They created new markets for manufactured consumption goods. And they provided the bulk of the exports to pay for the imports of capital and goods which stimulated the rapid expansion of American industrialism. The fact that capitalist industry gained more from the expansion of agriculture than did the farmers was the cause of the agrarian revolts in the 1870's-90's.

Another aspect of the renewal of the frontier and the resulting expansion of agriculture was the construction of railroads on a large scale. This was a most important factor in the movement of production, accumulation, and prosperity. Railroad mileage rose from 35,085 in 1865 to 177,746 in 1895; capitalization rose to \$10,347 million.<sup>5</sup> Most of the increase was due to construction of the transcontinental railroads, which depended mainly upon the transportation of agricultural (and mining) products. Railroads absorb large amounts of capital goods. The construction of railroads in economically undeveloped countries is one of the main objectives of the export of capital and imperialism; it aroused the most bitter pre-war imperialist antagonisms (China, the Bagdad Railway, etc.).

Expansion of agriculture and construction of the transcontinental railroads were bound up with the growth of population and of cities, which proceeded on a much greater scale than in Europe. Population rose from 31,502,000 in 1860 to 92,267,000 in 1910 (including 23,000,000 immigrants). Cities rose from 141 to 788 and their population from 5,000,000 to 35,000,000, or from 16% to 38% of the total population.<sup>6</sup> This growth, which required construction materials, traction equipment, and other capital goods, and provided new markets, enormously stimulated the development of capitalism.

Thus the frontier, and its continental areas and resources, was directly connected with the long-time factors of economic expansion. It permitted an increasing output and absorption of capital goods because of the industrialization of new regions. The expansion of the frontier depended upon the development of agriculture (and mining), which in turn depended upon the markets of the industrial Eastern states and of Europe. And the frontier came to an end when industrialization was measurably complete.

But while it existed, the frontier was one of the major peculiarities

of American capitalism. Its conditions of life renewed economic opportunity and progress. It provided almost unlimited possibilities for industrialization and the accumulation of capital and created constantly larger mass markets. The industrial Eastern states exported manufactures to the newly settled regions and imported raw materials and foodstuffs. This permitted an enlargement of the scale of production and an increasing realization of profit and accumulation of capital. Industries sprang up in the new regions, both local enterprises and branch plants of Eastern enterprises, which meant more absorption of capital goods, more realization of profit and accumulation of capital. The expansion of the frontier was a perpetual re-birth of capitalism, energizing its upward movement, strengthening capitalism economically and ideologically; and its continental areas and resources performed, up to the World War, the same economic function that colonialism and imperialism did for the industrial nations of Europe.

The upswing of capitalism invigorated the ideal and the reality of the "American dream." Elements of this dream, animating most of the early colonists, who were rebels against the feudal order, acquired new forms and vigor in the new world. They were consolidated by the American Revolution, vitalized by social-economic development on an almost wholly capitalist basis and by the "opportunity" and "self help" of the frontier and its influence in accelerating economic development. The American dream was an ideology compact of ten major elements:

1. Liberty: The right of the individual to live his own life in his own way (of which the original expression was freedom of conscience); tolerance as a way of life.

2. Democracy: The right of the people to decide their own destiny in their own interests and in their own way; faith in the creative initiative and action of free men and women.

3. Equality: The right of all to an equal share in the fruits of progress regardless of origins; differences of racial or biological inheritance do not justify social inequality and class oppression or exclude any people from the highest forms of civilization.

4. Mass well-being: The right of all to the good things of life, particularly the right of the mass of the people to share, and share increasingly, in the conquests of industry and civilization: the abolition of poverty.

5. Opportunity: The right to an equal share in economic and political opportunity, whose perpetual rebirth was assumed, unrestricted by origins; in its more subtle forms, an aspiration after higher things.

6. Education: The right to an education and faith in education as a means for personal improvement and progressive solution of social problems; the creator of new and finer ways of life.

7. No class stratification: The right to move freely from one class to another, including a disregard of class distinctions which colored American life and made it impatient of traditional restraint.

8. Limited government: The right to minimum interference by the state and faith in the creative action of the people; opposition to bureaucracy as a heritage of monarchy.

9. Peace: The right to peace and the peaceful settlement of disputes; monarchical tyranny means war, while democracy moves toward universal peace.

10. Progress: The right and possibility of unlimited progress, the synthesis of all the preceding ideals; a steady, inevitable upward movement to new and finer fulfillments.

Now these elements of the ideology of the American dream were not peculiarly American. They are easily recognizable as ideals of the bourgeois revolutions and of most of the liberal and socialist reformism in pre-war Europe. But there was one peculiarity of major importance: *nowhere were the ideals more largely realized than in the United States*, because of the relative freedom and mobility created by the rapid expansion of industry and the frontier. True, the realization was woefully limited, the ideals exploited by the ruling class in its own interests and degraded by the buccaneers of industry, finance, and politics. Yet the ideology was not mere make-believe, not wholly tawdry. It could not have arisen in a slave or feudal society. It expressed many real achievements and, still more, the *possibilities* of social progress. The ideology was real enough to dominate the labor and agrarian revolts of the 1870's-90's. But it must be remembered that, in one decisive aspect, the development of capitalism is a perpetual struggle against its early revolutionary ideals, as they are a temporary and not always an inseparable accompaniment of capitalism. Thus the development of American capitalism was a perpetual struggle against and increasing limitation and degradation of the ideals of the American dream. This appeared clearly after the Civil War and still more clearly in 1900-1914. For in spite of its great expansion and its peculiarities, which invigorated the American dream, American capitalism was not immune to the general laws of capitalist growth and decline. Around 1900, capitalist monopoly became ascendant, the frontier met its geographical and economic limits and was no more,

and the export of capital and imperialism began to develop. There was a slackening and decline in the rate of economic growth and a corresponding restriction of opportunity, creating a minor crisis of the American dream, in which opportunity had been the unifying element. The crisis was not acute because of comparative agrarian prosperity, the growth of the new middle class, and the gains made by the privileged minority of skilled workers. It was acute enough, however, to produce a marked drift toward socialism. The crisis was overcome or evaded by the World War and the prosperity of 1923-29. But this prosperity not only produced the usual cyclical depression, it simultaneously intensified, while temporarily overcoming, the elements of the decline of capitalism. But the decline now creates a major crisis of the American dream. *At the moment when the high development of the productive forces makes possible a fuller realization of the traditional ideals of the American dream, a condition arises which means a complete reaction against even the partial realization of those ideals, an increasing limitation of opportunity and progress.\**

The crisis of the American dream is an expression of the crisis of the economic order, of the decline of capitalism. In one of its immediate aspects, the decline appears clearly in the program of the government to spend over \$10,000 million to overcome the crisis and revive prosperity! The Hoover Administration added \$4,000 million to the national debt, the Roosevelt Administration over \$6,000 million in one year. By the end of the fiscal year 1934 the national debt had risen to the war-time peak of \$26,500 million. Another \$7,000 million will be spent in 1934-35, an estimate based on optimistic hopes of recovery. Public works will absorb \$3,300 million, farm relief \$2,000 million (including over \$750 million to pay for acreage and crop reductions). On January 31, 1934 the Reconstruction Finance Corporation had outstanding \$3,428 million, mainly in loans to corporations, including \$1,000 million for the payment of bank stocks bought by the government.<sup>7</sup> Only a part of the money is spent on relief or "made work" projects. Most of it directly, and all of it indirectly, is spent to prop up the sagging foundations of the capitalist economy: to restrict agricultural production, to sustain tottering banks, to permit railroads to buy equipment, to aid industrial and utility corporations, to protect capital investment and profits, to allow payment of interest and other

\* This subject is discussed more fully in Chapter XXV, "The Crisis of the American Dream."



fixed charges.\* *Is there an American crisis!* The expenditures of public money, involving a tremendous increase in the burden of taxation, debts, and interest, is part of a program based on the conviction that industry cannot revive and prosper without the artificial stimulant of state financial aid. Even if prosperity returns on any considerable scale, and corporations repay the loans, the burden on profits will be great, and still greater on the people at large in higher taxation (for most of the money is spent outright). If, as is most likely, prosperity does *not* return on any considerable scale, and there is a lower level of economic activity and income, the burden of taxation will be heart-breaking, for corporations will repay little if any of the public money they now receive. It will be worse if inflation is resorted to. And most of the burden will be thrust upon the workers (including farmers and professionals): already there are sales taxes and lower real wages, and eventually there may be direct taxes on wages, as in some European countries.

State financial aid to sustain tottering private industry is the major aspect of the state capitalism represented by the creations of Niraism, but which may assume other institutional forms. This is definite evidence of the decline of American capitalism. It is exactly what governments have been doing in France and England, on a larger scale in Italy and Germany. In spite of differences in political forms, the same state-economic measures are adopted under the pressure of capitalist decline. Pre-fascist German governments poured public money into industry; the Nazis do the same. Fascist Italy issues state loans "for relief of private companies which find themselves in difficulties because of the depression." The American Reconstruction Finance Corporation serves as an organizational model for the Italian Industrial Institute, but its policy was already being pursued by the fascist government.<sup>8</sup> A public-works program is the backbone of "recovery" efforts in Italy and Germany; to a lesser extent in France and England, where, however, it is increasingly urged. Highway-building is stressed, although new roads are largely unnecessary and include construction of "luxury" automobile super-highways. "In Germany the present roads might be able to carry ten times the present traffic. Only when viewed most optimistically does it seem possible

\* In 1933 the von Papen government in Germany, in an attempt to stimulate revival, gave private industry what amounted to a subsidy of 750 million marks to be spent on capital goods. But most of the money was used by the recipients to pay debts. Gerhard Colm, "Why the 'Papen Plan' for Economic Recovery Failed," *Social Research*, February, 1934, p. 93.

that sufficient traffic will develop to liquidate the present cost of the scheme.”<sup>9</sup> And the “recovery” program of Niraism depends in large measure upon public works. Thus the American government resorts to the state-economic measures characteristic of the decline of capitalism in Europe. And this decline only a few years ago was considered the lot of lesser breeds outside the law—the law of American prosperity everlasting!



## Summary

IN its immediate aspects the American crisis is an outcome of the depression and of the inability to restore prosperity on any considerable scale. It mocks the pre-depression claims of prosperity everlasting. In its larger aspects the crisis is an outcome of the decline of capitalism.

Prosperity under capitalism depends upon the making of profits and their conversion into capital. The higher the profits and the lower the wages, the greater is the accumulation of capital. This lag of wages behind profits, and the resulting lag of mass consumption behind production, is a condition of accumulation. But it eventually upsets the balance between production and consumption, and creates recurrent crises and depressions. This has always been so and must always be so under the social relations of capitalist production.

While prosperity always broke down, every depression was succeeded by a new upsurge of prosperity because of the long-time factors of economic expansion. These factors—mechanization of old industries, development of new industries, industrialization of new regions—permitted an increasing production and absorption of capital goods, the basis of capitalist prosperity and accumulation. As, however, all the long-time factors of expansion approach exhaustion, capitalism begins to decline because it is no longer able to produce and absorb an increasing output of capital goods. The decline of capitalism is an expression of old age, of a crisis in its historical development: one social system grows into another. A new social order is in the making. But Niraism, and the state capitalism of which it is a form, does not represent the new order; its objective is to save the tottering old order of capitalist exploitation.

As prosperity depends upon the making of profits and their conversion into capital, labor may or may not share in its gains. When labor did share, it was meagerly; and there were whole periods in which prosperity was accompanied by stationary or falling real wages and mass consumption. But the tendency, at least, was upward. Now, in the epoch of the decline of capitalism, wages and mass consumption must tend downward; in other words, they experience an absolute

fall, where in the past the fall was only relative to the rise in production and profits.

The decline of American capitalism is conditioned by the exhaustion of the inner long-time factors of expansion. This exhaustion, which is relative and wholly capitalist, was brought to a head by the prosperity of the "Golden Age" of American capitalism. It assumed the form of overdevelopment of productive forces, saturation of capital plant, monopoly, the export of capital, and imperialism. The legacy was a restriction of the opportunities for an increasing output and absorption of capital goods, for the accumulation of capital. Thus, to understand the decline of capitalism, an analysis is necessary of the prosperity of 1923-29, which involves an analysis of the fundamentals of capitalist production. And the starting point of the analysis is the movement of profits and wages, which conditions both the upswing and the decline of capitalism.



## PART TWO

### Prosperity, Profits, and Wages



## Introductory

IN the claims of Niraism, of state capitalism, reappear, in slightly different form, the basic claims of the pre-1929 mythology of prosperity. The older prophets insisted that under the "new capitalism" wages necessarily secured large gains from increasing production and productivity; the antagonism between wages and profits had been ended, the capitalists "recognizing" that high wages and high profits are inseparable. The prophets of Niraism also insist that high wages are profitable to the capitalists: they want to "raise" wages and "control" profits in the interest of prosperity and of assured and higher profits. Thus President Roosevelt claims that "fair wages and fair profits" is the aim of Niraism.<sup>1</sup> The identity between the old and the new has been thus stated by a liberal critic:

"Both the plan for industrial codes and the Blue Eagle scheme were predicated on the assumption that capital would make voluntary sacrifices for the benefit of labor, in a spirit of patriotic endeavor, and also because the capitalist, if the scheme worked, would profit enormously from the increase in business which would then ensue. It should be noted that this plan contemplated no fundamental reorganization of our moribund economic system. Its central feature was an application of the old Hoover-Ford doctrine of high wages, exercised in a time of desperate economic distress and not, as it was originally conceived, when ample profits were being produced."<sup>2</sup>

There is this difference: The pre-1929 apologists of prosperity insisted on the "unfettered" economic action of capitalism; the apologists of Niraism claim that the government will "control" industry to *compel* the capitalists, in their own interest, to "raise" wages and "limit" profits, and thus assure ultimately higher profits. But in practice both assumptions mean the same thing: It is possible to reconcile the antagonism between wages and profits *if only* the capitalists are convinced that higher wages mean higher profits and continuing prosperity.

The demand for government "control," which distinguishes the prophets of Niraism from their predecessors, is very significant. One result of the decline of capitalism is the necessity of increasing state



intervention to prop up the sagging economic order. This is the real purpose of Niraism and state capitalism: all else is mere ballyhoo. For intervention and "control" are by the capitalist state; they proceed, in spite of minor institutional changes, on the basis of the fundamental relations of capitalist production, in which profits and the accumulation of capital are the decisive factors. Profits control capitalist industry and *must* control intervention by the capitalist state. The state capitalism of the imperialist nations of Europe has not limited profits in general or raised wages. To understand why, and why there must be a similar American experience, it is necessary to analyse the relation of profits and wages to one another and to capitalist production, prosperity, and accumulation. The relation is clearly revealed in the economic movement and changes of 1920-29.

## Profits and Prosperity

THE ending of the World War in 1918 produced an economic recession, followed by an upward movement. A heavy export of capital and goods was the decisive factor in post-war prosperity. Stricken by war's destruction, intervening in Soviet Russia, and threatened by the revolutionary action of its own workers, capitalist Europe mortgaged itself, kept on borrowing in the United States and imported large amounts of goods. American exports in 1919-20 were the largest in history: \$16,148 million, with an excess of exports over imports of \$6,965 million.<sup>1</sup> (This economic intervention in Europe was "our" major contribution to the struggle against revolution.) But production in 1919-20 was lower than in 1918;\* prosperity was essentially speculative, based upon rising prices and foreign demand. Profits rose while real wages were almost stationary. Although production fell, an overproduction of goods developed in particular lines because of excessive output resulting from competition and in all lines because sharply rising prices redistributed income and reduced mass purchasing power. The equilibrium between production and consumption was upset. Prosperity crashed.

Prosperity revived in 1922, as in all previous depressions, by the action of economic forces independent of the planful intervention of the masters of industry and finance. This action assumes the form of liquidation of prices, wages, accumulated consumption goods and, primarily, of capital and capital claims (precisely as in 1929-34): it resembles the blood-letting of medieval medicine. The most important aspect of liquidation is the wiping out of capital and capital claims, modifying the disproportionate accumulation of capital which set in motion the forces of depression. Liquidation reaches a point where the economic equilibrium is restored, on a lower level, and production, consumption, and *capital accumulation* begin to revive. An increase in the production of consumption goods, because of depletion of accumulated stocks, may be a minor cause of revival. The major

\* The index of physical volume of production in manufactures was 104 in 1918, 98 in 1919 and 101 in 1920. A. M. Mathews, "The Physical Volume of Production in the United States," *Review of Economic Statistics*, July, 1925, p. 208.

cause of revival is a renewed demand for capital equipment, either for replacements or new industries or both. New consumer purchasing power is created. Industry begins to move upward, slowly and planlessly.

The speed of revival and the scope of recovery and prosperity depend upon an *increasing* output of capital goods and the opportunities it provides for capital investment and accumulation. This in turn depends upon other than the ordinary cyclical factors, upon the development of new industries and unusual expansion of old industries. In the United States after the Civil War, accumulation was invigorated by the mechanization of old and the growth of new industries, particularly the railroads, and by industrialization of agrarian and frontier regions. In early nineteenth-century England, prosperity was identified with expansion of the textile industry and later of the iron and steel trades, while expansion of the electrical industry produced an unusual prosperity in the Germany of 1890-1905; another factor of expansion was the export of capital (and capital goods) to industrialize colonial and other economically backward regions. Only these long-time factors of economic growth stimulate the output of capital goods and insure an increasing accumulation of capital.

An unusual feature of the depression was the steadiness of machinery output, which ordinarily drops severely. While output dropped from \$4,768 million in 1919 to \$3,235 million in 1921, there was no great drop as prices fell; output rose in 1922 and was \$4,727 million in 1923.<sup>2</sup> The demand for machinery modified the depression and encouraged revival, and was mainly due to efforts to raise the productivity of labor, which rose substantially. There were, apparently, fewer of the "postponable" expenditures on capital goods which aggravate depression. . . . The demand for machinery was strengthened by an upswing in construction, the industry which led the revival. Unlike industry in general, construction was not overproduced, but had accumulated a large shortage. Construction was practically stationary in 1914-16, and in the following four years averaged 28% below 1913. In 1921 construction, which had decreased one-half the previous year, regained all its losses and slightly more, and in 1922 was 35% higher than in 1913, increasing by nearly \$1,000 million;<sup>3</sup> the increase was mainly in industrial and commercial structures, essentially an output of capital goods. . . . Railroads, whose ordinary requirements had been neglected during the period of Federal control, increased their capital expenditures to \$1,059 million in 1923 and \$3,996 million in the five years 1922-26.<sup>4</sup> . . . The depression drop in the output

of automobiles was small; output rose in 1922 and was \$3,164 million in 1923, nearly \$1,000 million more than in 1919 and a twofold increase considering the fall in prices.<sup>5</sup> . . . The revival was essentially a product of the increasing output of capital goods, but it was strengthened by an unusual development: a substantial rise in real wages, which increased mass purchasing power and consumption. Consumption was 6.5% higher in 1923 than in 1920,<sup>6</sup> an unparalleled increase, stimulating production and, more important, the output of capital goods. After 1923 the upward movement in real wages and mass consumption slackened and came practically to a standstill: while total production in 1922-29 increased an average of 4.1% yearly, capital goods increased 6.4% and consumption goods only 3.7%.<sup>7</sup> Accumulation, as usual, outstripped consumption.

Prosperity was sustained by the upward movement in the output of capital goods, by increasing opportunities for the accumulation of capital. Construction moved steadily upward:\* it was 31% higher in 1929 than in 1922, scoring an average yearly increase of 6.1%; total construction was \$48,859 million, an average of \$6,100 million yearly.<sup>8</sup> Automobile output (wholesale value) averaged over \$3,000 million yearly in 1923-28, rising to \$3,719 million in 1929; a considerable part of the output consisted of capital goods: registrations of motor trucks, taxicabs, and buses increased more than private cars, while the wholesale value of motor trucks alone rose from \$317 million in 1923 to \$595 million in 1929.<sup>9</sup> The lessened capital expenditures of the railroads was partly offset by the rise in capital goods represented by increasing commercial use of the automobile and airplane. The drive to raise the productivity of labor (to increase profits) not only stimulated the demand for more industrial machinery but resulted in an increasing electrification of industry, the extent of which rose from 56% in 1919 and 67% in 1923 to 82% in 1929; capital investment in the electric power industry was \$12,500 million in 1929 compared with \$5,000 million in 1922.<sup>10</sup> The output of electrical machinery and apparatus rose from \$1,293 million in 1923 to \$2,273 million in 1929.<sup>11</sup> Expansion in new or comparatively new industries absorbed large

\* The average yearly increase in apartments and hotels was 3.7%, in one and two-family houses 5.1%, in commercial and industrial structures 8.1% and 9.3% respectively, and in public works and utilities 11.4%. In 1927-29 the construction of industrial buildings increased 50%. Frederick C. Mills, *Economic Tendencies in the United States* (1932), pp. 264-66. The upward movement in construction was sustained primarily by the demand for structural capital goods. The lack of this demand has forced adoption of the government's public works program in an effort to fill in the gap.

amounts of new capital—the moving picture, radio, rayon, chemical, aviation, mechanical refrigeration, and power laundry industries, whose combined value output in 1929 exceeded \$1,500 million. This expansion made large demands upon construction—industrial and commercial structures, “movie palaces,” and garages and service stations; it also made large demands upon machinery, the output of which rose from \$4,727 million in 1923 to \$6,964 million in 1929.<sup>12</sup> The expansion of new or comparatively new industries is particularly important since it demands more capital expenditures than similar expansion in old industries.

An increasing output of capital goods (not consumption goods) is the decisive factor in capitalist prosperity. It provides for the accumulation of capital and multiplies the capitalist claims upon labor, production, and income. But this involves a fundamental contradiction: realization of profit depends in final analysis upon the circulation of commodities, upon consumption, which accumulation tends to restrict. The stimulus to prosperity in the production of capital goods is twofold: it increases employment, wages, and profits (mainly profits) and creates consumer purchasing power, but *for a time* makes no demands or only slight demands upon consumer purchasing power to absorb *new* consumption goods. The danger to prosperity is threefold: the output of capital goods may represent excessive accumulation of capital, it may be concentrated in particularly profitable industries whose expansion becomes disproportionate in relation to other industries, and eventually the larger production made possible by the new capital goods outstrips the growth in markets and consumption. The output of capital goods begins to fall and wages, purchasing power and consumption are restricted. Prosperity crashes.

Two other factors affected American prosperity in 1922–29: the agricultural crisis and the recasting, by the World War, of international economic relations in favor of the United States.

The sharp fall in agricultural prices, a result of the post-war deflation which threw most of the burdens of deflation upon the farmers, contributed greatly to capitalist prosperity—by increasing real wages and releasing urban purchasing power for manufactured goods and by lowering the cost of raw materials. In spite of much lower incomes the farmers were forced by the low prices of agricultural products to increase productivity with improved methods and mechanization: the output (less exports) of agricultural machinery rose from \$101 million in 1923 to \$137 million in 1929.<sup>13</sup> Most farmers did not share in prosperity. But not only was the agricultural distress no bar to pros-



perity, it was one of the contributing causes: the final proof of the decline and hopeless state of American agriculture.

Where the World War aggravated Europe's economic decline, it contributed to the upsurge of prosperity in the United States by its stimulus to old and new industries, its creation of shortages, and its opening up of new foreign markets. From the American angle, the most important result of the war was the redistribution of world power in favor of the United States and the economic decline of its competitors. The American share of world exports rose from 12.3% in 1913 to 15.6% in 1928; the European share declined from 55.2% to 46% and the British share from 13.9% to 11.2%.<sup>14</sup> American exports (mainly manufactured goods) rose from \$3,971 million in 1922 to \$5,157 million in 1929; a favorable export balance of \$4,850 million piled up in 1923-29. The increase in exports was bound up with a growing export of capital; American foreign investments increased \$6,293 million in 1923-29.<sup>15</sup> Imperialism, new foreign markets for surplus capital and goods, created new means for the making of profits and their conversion into capital, for accumulation, and sustained prosperity *for a time* by lessening the demands upon the home market to absorb goods and capital. Increasingly the world market took the place of the frontier and of its long-time factors of economic expansion; but the experience of one is bound to be repeated by the other.

Rising investment, production, and accumulation were accompanied by a rising mass of profits. Profits in manufactures are the natural starting point of an analysis of the movement of profits (Table I). In 1929 profits were 22.9% higher than in 1923, total wages only 6.1% higher. If the two years of minor cyclical depression 1924 and 1927, are excluded, profits in 1925-29 averaged 9% higher than in 1923. Officers' salaries, a large part of which should be considered profit, rose steadily until in 1929 they were 16.4% higher than in 1923. The increasing productivity of labor was accompanied by higher profits and lower wages. But for the six years as a whole the profits of manufacturing corporations averaged only 1% higher than in 1923. (The rise was much greater, however, in comparison with 1922.) This seems to involve a contradiction—the productivity of labor and surplus value rose considerably, yet profits apparently failed to rise as much. The contradiction dissolves upon analysis and reveals the welter of contradictions and antagonisms inherent in capitalist production.

Corporate profits are usually understated. There are all sorts of



TABLE I

*Profits, Salaries, and Wages, Manufactures, 1923-29*

YEAR	CORPORATE		OFFICERS'		TOTAL	
	NET PROFITS (millions)	INDEX	SALARIES (millions)	INDEX	WAGES (millions)	INDEX
1923	\$3,872	100.0	\$960	100.0	\$11,009	100.0
1924	3,166	81.8	970	101.0	10,502	95.4
1925	3,877	100.2	*	*	10,730	97.5
1926	3,910	101.0	*	*	11,466	104.1
1927	3,431	88.1	*	*	10,849	98.5
1928	4,330	111.8	1,107	115.3	10,366	94.2
1929	4,760	122.9	1,117	116.4	11,684	106.1

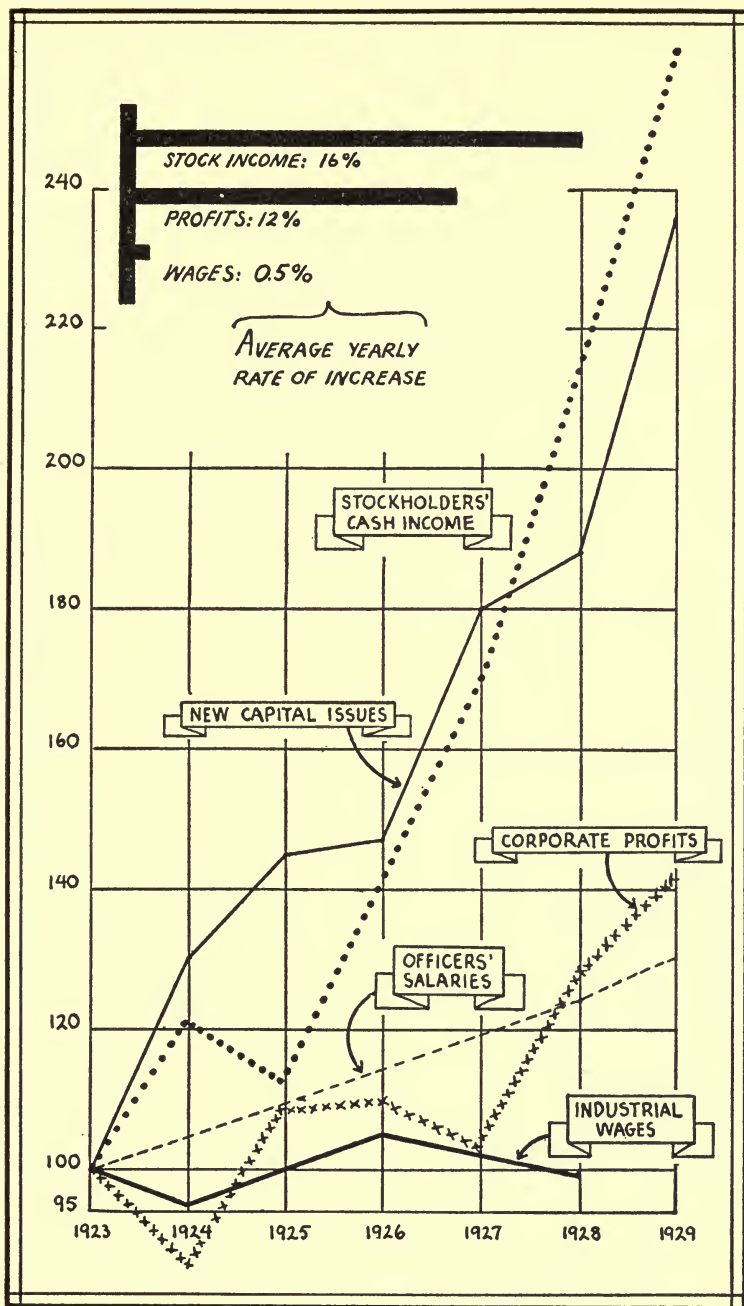
\* Not available.

Source: Net profits (corporations reporting profits, less taxes and intercorporate dividends) and officers' salaries (including bonuses and other compensation)—Bureau of Internal Revenue, *Statistics of Income*; wages—1923, 1925, 1927 and 1929, Department of Commerce, *Statistical Abstract of the United States*, 1931, p. 813, other years, W. I. King, *The National Income and Its Purchasing Power*, p. 132. King's estimates are slightly higher than the Census figures. Wages are for all manufacturing enterprises, while profits include only incorporated enterprises, but this does not affect the trend.

devices for concealing profits. One device is to make excessive allowances for depreciation to evade taxation. This was encouraged, during the "Golden Age" of American capitalism, by "liberalization" of the corporation income-tax law; the allowances in manufactures rose from \$1,424 million in 1923 to \$2,017 million in 1929,<sup>16</sup> a considerably greater increase than in capital equipment. Many corporations inflated the nominal value of their assets to permit larger depreciation allowances. Manufacturing enterprises, moreover, spent large sums on capital equipment which were charged to operating costs and do not appear as realized profits. These expenditures, which increase the productivity of labor and production, are capitalized surplus value.\* Another portion of profits was absorbed by the increase in officers' salaries; this form of exploiting corporations is flagrantly revealed in the "bonus" system by which the higher officers extort an additional "compensation" of millions yearly. At least one-third of salaries represent profits.

The distribution of profits (and of prosperity!) is always uneven. It was particularly uneven in 1923-29 because of the many and rapid changes in industries, technical equipment, and consumer buying

\* Such sums spent on capital equipment do not appear in surplus, which rose from \$13,060 million in 1923, to \$19,465 million in 1929. Bureau of Internal Revenue, *Statistics of Income*, 1923, p. 63; 1929, p. 332. Corporate savings or surplus are an impersonal, social form of the accumulation of capital.



II. PROSPERITY IN ACTION—1923-29.

habits, and of the resulting intensified competition. There were many laments about "profitless prosperity." Some industries were severely depressed while others were exceptionally prosperous. The automobile industry increased its profits an average of 22.5% yearly, machinery 14.9%, and chemicals and drugs 12.3%;<sup>17</sup> automobile super-profits were characteristic of the newer industries. But high profits among the newer industries was partly conditioned by lower profits among the depressed older industries, whose losses were frequently disastrous.\* Profits were unevenly distributed, moreover, as between smaller and larger corporations. The movement of increasing technological efficiency, production, and competition, resulted, as always, in greater industrial concentration and centralization of corporate control: in 1923 the largest 1,240 manufacturing corporations received 64.9% of all corporate net income, while in 1929 the largest 1,289 corporations received 75.6%.<sup>18</sup> An increasing number of corporations, mainly the smaller, reported deficits—34% in 1919, 41% in 1923, and 47% in 1929.<sup>19</sup> These deficits, which depressed the mass of profits, are a condition of capitalist production and prosperity and of the profits of other corporations.

A characteristic of capitalist production is that its drive for larger profits creates a series of antagonisms which limit the realization of profits. Output increases more than profits, because capitalist production tends toward an absolute growth of the productive forces regardless of the capacity of markets and of the development of consuming power. Competition is intensified and prices fall to levels which yield small profits or no profits—one result of the higher productivity of labor, which simultaneously increases surplus value and sets in motion forces which prevent its complete realization. As competition is intensified by the higher productivity of labor and larger output, which outstrips markets and consumption, there is an increase in the costs of distribution, of merchandising and advertising, costs which are a charge upon surplus value and cut into profits: in 1923–29 that part of "value added by manufacturing" represented by overhead costs increased more than profits (and wages). The drive for larger profits creates a final antagonism: it develops the forces of cyclical breakdown

\* While profits (including intercorporate dividends and before payment of taxes) increased in 1922–29 an average of 7.4% yearly for all manufacturing corporations, profits decreased among 815 corporations in 28 industries, including textiles, canned goods, lumber, paints, glass, textile machinery, and railroad equipment; the increase in the profits of the more prosperous corporations averaged 9.8% yearly. Mills, *Economic Tendencies*, p. 401.

by increasing productivity, production, and profits more than wages and consuming power, disturbing the balance between production and consumption and between one industry and another. The consequent disproportions interrupt prosperity with minor depressions, and eventually prosperity collapses into a major depression. Profits in manufactures fell considerably in the minor depression of 1924 and in the minor depression of 1927, which severely lowered the yearly average of profits in 1924-29. Depression is one of the most drastic means by which capitalist production limits the realization of profits.

While profits in manufactures did not rise as much as production, the productivity of labor, and surplus value, profits as a whole rose more substantially. The general rise was larger than in manufactures; for surplus value, which exists originally as a definite portion of unpaid labor, as a surplus product, is finally realized only in the process of the circulation of commodities. The transactions of the market do not produce or increase surplus value, but they distribute and apportion it. All sorts of queer things now happen which are normal under capitalism. Not only may the industrial capitalist realize as profits only a small portion of surplus value or none at all, if prices are unfavorable, but a struggle occurs over the division of the surplus value extorted from labor, and an increasing part of it may become the profits of the non-industrial capitalist. The profits realized by the individual capitalist or corporation depend considerably upon trickery, the chances of the market, and other similar circumstances. Financiers may plunder the manufacturing corporation, speculators may seize its profits. Chain stores compel small manufacturers to sell at prices yielding low profits and often no profits at all; large manufacturing corporations (*e. g.*, the automobile industry) pursue the same tactics with small manufacturers of semi-finished raw materials or parts. Bank loans may absorb an increasingly larger share of manufacturing income. Finance and holding companies exploit operating companies by extortionate "service charges" and other predatory devices: high profits in the one case arise out of low profits in the other. Thus financial and speculative capitalists are enriched. The mass of profits accordingly appears only in their final realization and distribution as a whole (Table II). Total profits rose and rose substantially. The profits of all corporations are understated, as in manufactures. In addition, interest, as much as profit, is realized surplus value: corporate interest payments rose from \$3,277 million in 1923 to \$4,924 million in 1929.<sup>20</sup> Profits in 1929 were 41.1% higher than in 1923, and officers' salaries 29.7% higher. Average yearly profits for 1924-29 were 12.7% higher

TABLE II

*The Movement of Profits, Salaries, and Wages, 1923-29*

YEAR	CORPORATE PROFITS (millions)	INDEX	OFFICERS' SALARIES (millions)	INDEX	INDUS- TRIAL WAGES (millions)	INDEX	ALL WAGES (millions)	INDEX
1923	\$7,721	100.0	\$2,575	100.0	\$18,105	100.0	\$28,691	100.0
1924	6,705	86.9	2,635	102.3	17,200	95.0	29,051	101.3
1925	8,413	109.0	*	*	18,083	99.9	30,762	107.2
1926	8,444	109.4	*	*	19,068	105.3	32,604	113.7
1927	7,851	101.7	*	*	18,524	102.3	32,884	114.6
1928	9,921	128.5	3,199	124.2	18,050	99.7	32,235	112.4
1929	10,892	141.1	3,336	129.7	*	*	*	*

\* Not available.

Corporate profits—net profits of corporations reporting profits, less taxes and inter-corporate dividends. Officers' salaries (corporations) includes bonuses and other compensation. Wages—all wages includes wages paid to farm laborers, servants, and workers in non-corporate industrial, commercial and service enterprises; *industrial wages*, more nearly equivalent to corporate wages, are the wages paid to workers in manufactures, mines, quarries and oil wells, construction, and transportation (railroads, express, transportation by water, street railways, electric light and power, telephones and telegraphs).

Source: Profits and officers' salaries—Bureau of Internal Revenue, *Statistics of Income* for the respective years; wages—W. I. King, *The National Income and Its Purchasing Power*, pp. 132-33.

than in 1923. Profits rose more than production and the national income, and more than wages. The yearly average of all wages for 1924-28 was higher than in 1923; but this is not the true measure of wages in relation to corporate profits, for it includes the wages of servants and of workers in non-corporate enterprises, whose profits are not included, and all of which, however, have large elements of social-economic parasitism. A truer measure are industrial wages (manufactures, mining, construction and transportation); *for 1924-28 the average of industrial wages was only 0.5% higher than in 1923.*

As in the case of manufactures, the distribution of total corporate profits favored the monopolist combinations of capital; the greater trustification of industry resulted in a greater concentration of profits:

In 1923, the largest 1,026 corporations, 0.26% of all corporations, received 47.9% of all corporate net income, an already dominant concentration.

In 1929, the largest 1,349 corporations, again 0.26% of all corpora-



tions, received 60.3% of all corporate net income, an increase of over one-fourth in concentration.<sup>21</sup>

The concentration of industry in monopolist combinations and the multiplication of stockholders result in the usurpation of control by a financial oligarchy, groups of financial capitalists operating by means of a system of centralization of financial control dominated by the great banks. Industry depends more and more upon the financial oligarchy, which consequently absorbs an increasingly larger share of the surplus value extorted from labor. This was particularly marked in 1923-29:

The profits of non-financial corporations rose from \$4,948 million in 1923, to \$5,645 million in 1929, or 14%, the profits of financial corporations (including banks, investment banks, finance and holding companies) from \$870,000,000 to \$2,438 million, or 177%, a phenomenal increase.

The profits of non-financial corporations in 1924-29 averaged 2% lower than in 1923, the profits of financial corporations 69% higher.<sup>22</sup>

A considerable portion of financial profits, particularly in 1928-29, was a result of frenzied stock-market speculation, the gains of which represent both previously appropriated surplus value and claims upon new surplus value. Finance capital, interested more in the speculative production of profits than in the production of goods, dominates industry; the appropriation of surplus value and profits is increasingly separated from their production.

Corporate disbursements to investors increased greatly. Dividends (excluding intercorporate dividends) rose from \$3,299 million in 1923 to \$5,765 million in 1929 and interest payments from \$3,277 million to \$4,924 million. Total corporate disbursements in seven years amounted to \$88,000 million. While the average yearly increase in industrial wages was only 0.5%, the increase in stockholders' income was 16.4%.<sup>23</sup> Part of the immense profits was spent on the living expenses of their appropriators, whose income was further swollen by extortionate salaries or fees and by speculative profits; but most of it was invested, used for the production of more profits. The great mass of available investment capital was enlarged by the profits of non-corporate business and by the large savings of the middle class and the small savings of better-paid workers and farmers. (There was great competition for the "marginal" income of the "common people." Bankers and brokers shouted: "Save and invest!" Manufacturers and merchants shouted: "Spend and make prosperity!") The enormous accumulation of capital exerted tremendous pressure on the

investment market. Many issues were made out of whole cloth, and investment bankers often forced corporations to issue new securities. Abundant capital and "easy money" tempted corporations to improve and enlarge plant equipment, which temporarily stimulated prosperity but resulted in an increasing displacement of labor and overproduction. The flood of new securities was swollen by the issues of investment trusts (guilefully offering security *and* large profits!), trading companies, and holding companies, an important source of the phenomenal financial profits. Foreign issues increased; American bankers accepted any business yielding good commissions and their loans contributed to sustaining the Fascist dictatorship in Italy and the military dictatorships in Cuba and Venezuela. The superabundance of investment capital made easy the absorption of an unusually large mass of new issues:

The total of new securities (excluding refunding) rose from \$4,304 million in 1923 to \$10,182 million in 1929, an increase of 137%.

New corporate issues rose from \$2,031 million in 1923 to \$8,002 million in 1929, a four-fold increase; total corporate issues in the seven years amounted to \$30,523 million.

New foreign issues rose from \$892,000,000 in 1923 to \$1,572 million in 1927 and slumped to \$762,000,000 in 1929, the total for the seven years being \$7,805 million; where domestic issues (excluding investment trusts and trading and holding companies) increased an average of 7.7% yearly, foreign issues increased 10.1%—an indication of the rapidly increasing importance of the export of capital.

The aggregate of all new issues in 1923–29 amounted to \$48,548 million.<sup>24</sup>

In addition to raising capital by issuing securities, corporations customarily reinvest up to one third or more of their profits; surplus rose from \$33,596 million in 1923 to \$50,725 million in 1929. In the year of the great crash, in 1929, capital expenditures of all sorts (including public works) probably totalled \$15,000 million. Total corporate capital rose from \$191,000 million in 1923 to \$233,000 million in 1929.<sup>25</sup>

Thus increasingly higher profits and their conversion into capital by means of an increasing output and absorption of capital goods resulted in an upsurge of prosperity. The active accumulation of capital expressed an unusual combination of the long-time factors of expansion: it appeared only once before in American history, in the period immediately after the Civil War. Then the major factor sustaining the upward movement of prosperity was the development of

old and new industries, particularly building construction, iron and steel, railroads, and agricultural equipment. In 1923-29, prosperity was sustained by expansion in building construction, electric power, and new industries. In both cases expansion created increasing demands for capital goods, which stimulates the making of profits and their conversion into capital. The most important difference was replacement of the frontier by greater industrialization of the South and by the export of capital. The latter was the more fundamental difference: it offset exhaustion of the inner long-time factors of expansion by imperialist exploitation of similar international factors.

But the maintenance of prosperity requires a proportional distribution of investment and consuming income, a sustained balance between the output of capital goods and consumption goods, between production and consumption. There was no such distribution or balance; and the basic reason for its absence was the antagonism between profits and wages, resulting in the lag of wages behind profits. This antagonism is fundamental in capitalist production.

## The Policy of High Wages

IN spite of the available facts, there was, in 1923-29, an almost universal belief that American employers had accepted the "policy of high wages" as the basis of prosperity. An economist wrote: "Increasing productivity of labor and industry, advancing wages, higher living standards, and greater consuming or purchasing power, is now the avowed policy and practical program of American industry." . . . An economic historian: "The cultivation of consuming power became the direct concern of manufacturers, with results that profoundly affected wages and price adjustments [recognizing] that to raise wages and reduce prices was the way to promote and safeguard prosperity." . . . The President's Committee on Recent Economic Changes: "Leaders of industrial thought began consciously to propound the principle of high wages." . . . The dogma of the "policy of high wages" was generally accepted in Europe, although a German trade union delegation was skeptical and British employers frequently stated that American employers did not pay any higher wages than they had to. Two British investigators reported that not only did American employers constantly raise wages but that they *never* limited earnings on piece rates or cut rates! . . . A German economist, *after* prosperity crashed into depression: "The industrialists had to revise their economic theories. Henceforward, in common with the principal groups of organized workers, they regarded high wages not as a costs item involving higher prices, but as an element creating increased purchasing power, and with it the potentiality of increased sales."<sup>1</sup>

There were two basic assumptions in the dogma of the policy of high wages:

In 1921-22, enlightened employers, recognizing that high wages promote and safeguard prosperity, *voluntarily* raised wages, whereupon prosperity burst forth in all its radiant glory.

In 1923-29, the employers practiced the policy of high wages; they *voluntarily* and *constantly* raised wages, which rose higher and higher, to increase consumption, production, and prosperity.

But wages are not determined in this fashion, neither in an "unfet-

tered" capitalism nor in a capitalism upon which are imposed the "controls" of state capitalism. The facts are clear:

Real wages rose in 1921-22, but *the increase was imposed upon the employers by falling prices and labor's militant resistance to cuts in money wages.*

The rise stopped as a real upward movement after 1923; *money wages and real wages were practically stationary in 1924-29, precisely when American capitalism was being touted as having accepted increasingly higher wages as its "avowed policy and practical program."*

The immediate post-war period was one of sharp struggle between labor and capital. Press and employers demanded a "liquidation" of labor and of "high wages." According to one of the apologists of prosperity: "The burden of all business discussions, as well as political debates bearing upon financial and industrial problems, was the constantly reiterated declaration that there 'must be a return to normalcy' . . . meaning a reversion to pre-war wages, industrial conditions and prices."<sup>2</sup> In spite of the employers' resistance, and by means of embattled struggle, labor forced up money wages, which in 1920 reached an exceptionally high level, an all-time high. In 1921-22, the employers' resistance developed into a general offensive to cut wages. An ally of the House of Morgan, the National City Bank of New York, declared high wages were responsible for the depression and retarded revival. The National Association of Manufacturers and other employers' organizations proposed to "deflate" the trade unions, whose "pretensions" were considered "menacing," by means of the "American plan" of "open shop." The unions, cajoled during the war, were now stigmatized as a menace to American democracy and civilization. Samuel Gompers, president of the American Federation of Labor, was met with derision and denunciation when he urged: "High wages, the best possible wages, are the greatest incentive to prosperity." A storm of wage cuts beat upon the workers: hourly money earnings in manufactures were cut 15% in 1921 and another 5% in 1922; there were similar cuts in non-manufacturing industries, while the strongly unionized building trades workers had their hourly rates cut nearly 6%.<sup>3</sup>

Labor resisted the capitalist offensive. There were 2,226 strikes in 1920 involving 1,463,054 workers and 2,684 strikes in 1921-22 involving 2,711,809 workers.<sup>4</sup> Great strikes broke out in the mines and on the railroads. Rebellious memberships in the unions forced strike action upon the reluctant union bureaucracy; "outlaw" strikes disregarded the bureaucracy and agreements with the employers. Capitalism



resorted to its usual methods of legal and physical force to crush the strikes. During the war, although strikes led by the Industrial Workers of the World were brutally suppressed, the government maintained a velvet-glove policy toward "patriotic" labor, under pressure of political necessity. But the iron fist was revealed immediately after the war. In 1919, President Woodrow Wilson denounced the coal miners' strike as a "fundamental attack, which is wrong both morally and legally, upon the rights of society and the welfare of the country."<sup>5</sup> The violence and other repressive measures against the miners and steel workers in 1919 were used again in 1921-22 to crush strikes. The courts issued injunctions upholding the employers against the workers; injunctions to limit picketing were declared constitutional by the United States Supreme Court, while it declared unconstitutional any law prohibiting the issuance of injunctions in labor disputes.<sup>6</sup> Injunctions helped to break the miners' strike in 1921 and the railroad shop crafts' strike in 1922. The strikes were animated by economic discontent, not political, but revolutionary thunder was in the air. In the four years 1919-22 there were 7,575 strikes involving 8,335,211 workers—an extraordinary expression of labor militancy. The Seattle six-day general strike in 1919 had many revolutionary implications—the strike council practically governed the city and labor guards maintained order in the streets. The most repressive measures were used against the left wing of the labor movement, the Communist Party and the Industrial Workers of the World; in many states mere membership in these organizations was made a crime punishable with severe imprisonment. Measures to prohibit strikes were discussed in Congress and state legislatures. An intangible but real factor was the proletarian revolution in Russia; the revolutionary overtones inspired militant workers to more aggressive action and affected the employers: revolutions *do* start with strikes.

As a result of labor's resistance, of its immediate and potential power, *money wages were not cut as much as the employers desired or as much as they might have been.* In 1923, hourly money earnings even increased, although still 11% below 1920. Money wages were cut, but prices declined still more and real wages rose (the rise was more than offset by an increase in the efficiency and intensity of labor, resulting in a higher yield of surplus value). *Practically the whole of the rise in real wages in 1921-29 took place in 1921-23.*

The capitalist attitude toward higher wages was clearly revealed in the speeches and writings of Samuel M. Vauclain, president of the Baldwin Locomotive Works (an affiliate of the House of Morgan),



and one of the most conspicuous mouthpieces of the policy of high wages:

In 1919, Vauclain had not a word to say about high wages; prosperity, he said, depends upon foreign trade.

In 1921, Vauclain urged unrelenting struggle against "high wages" and trade unions; industry is menaced "by extravagant demands of labor both as to rates and shortening hours." One of the "requirements for prosperity" was "the adjustment of labor." He thundered: "A general strike is threatened. Let the strike come. Pray for it. Pray for deliverance from outrageous regulations and wage schedules."

In 1922, Vauclain again urged wage cuts, and condemned the strikes for higher wages of the miners and railroad workers. "They are talking," he said, "about wages instead of work. Wages do not have to be lowered everywhere, but in many places they must be lowered to get going."

In 1923, *after* higher real wages had been forced upon the employers, Vauclain said: "There is nothing in low wages; higher wages are an essential part of prosperity." And one year later he proclaimed unctuously: "Higher wages have been a great blessing."<sup>7</sup>

Real wages rose against the employers' resistance; and in 1923-28, when high wages were proclaimed "the avowed policy and practical program" of American capitalism, real wages were practically stationary (Table III). In 1920-22 real wages scored an increase of 12%, because of lower prices, as hourly, weekly, and yearly earnings all declined. After 1923, the upward movement practically ceased: money earnings remained below 1920 and real earnings rose only slightly because there was no considerable fall in prices. Hourly money earnings were 3.6¢ higher in 1927-28 than in 1923, but full-time weekly earnings were constant, due to a moderate shortening of the hours of labor and to a probable decrease in wage rates, as changing processes or products made it possible to make concealed reductions by tightening the rates on new jobs, workers maintaining their customary earnings by working harder. Average yearly money earnings of all workers rose only \$55 or 5%; the index of real wages was stationary in 1924-25 and then rose slightly. In manufactures, average yearly earnings in 1928 were lower than in 1923. Wages fell considerably in many groups, particularly in the industries depressed by the competition of newer products. Real hourly and weekly earnings in 1928 were 1% lower than in 1923 in cotton manufacturing, and 3% lower in men's clothing; weekly money earnings in cotton manufacturing decreased from \$21.24 in 1923 to \$19.71 in 1928, in heavy equipment

TABLE III

*The Movement of Earnings and Real Wages, 1919-28*

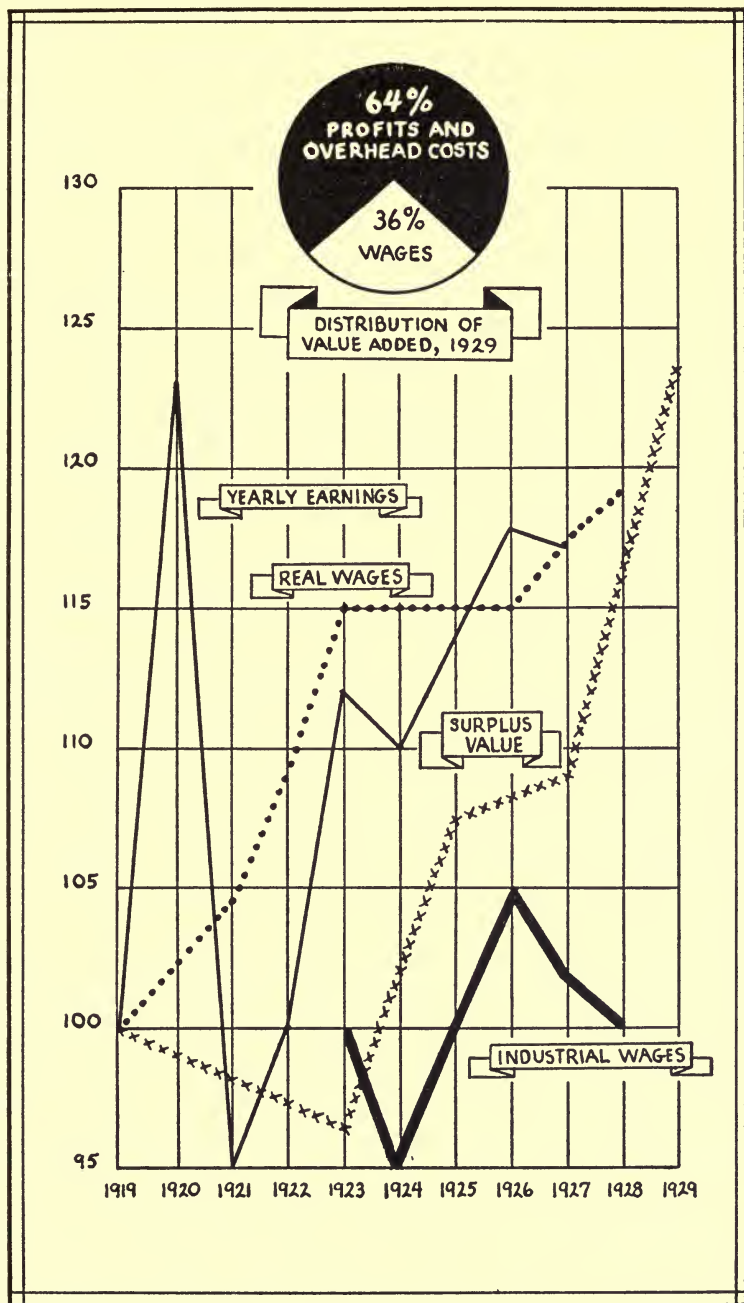
					INDEX
	HOURLY	FULL-TIME		YEARLY	OF REAL
YEAR	EARNINGS	WEEKLY EARNINGS		EARNINGS	WAGES
1919	*	\$28.78	*	\$1029	100
1920	.607	32.57	*	1273	102
1921	.525	27.62	*	983	104
1922	.495	27.64	*	1021	108
1923	.541	27.58	27.67	1150	115
1924	.562	27.51	27.48	1134	115
1925	.561	27.45	27.75	1176	115
1926	.568	27.03	27.66	1217	119
1927	.576	27.09	27.74	1205	*
1928	.579	*	*	*	*

\* Not available.

Source: Hourly earnings, 24 manufacturing industries—National Industrial Conference Board, *Wages in the United States*, p. 47; weekly earnings, first column 12 industries, second column 42 industries, covering 2,856,160 and 5,832,302 workers respectively out of over 8,000,000 employed in manufactures—National Bureau of Economic Research, *Recent Economic Changes*, v. II, p. 433; yearly earnings, all workers—W. I. King, *The National Income and Its Purchasing Power*, p. 146; index of real wages—Paul H. Douglas, *Real Wages in the United States*, p. 392.

from \$33.02 to \$31.32, in wool manufacturing from \$23.97 to \$21.75. Wages were slashed among the coal miners and textile workers. The real earnings of railroad workers other than trainmen fell 1%. Although there were fewer strikes in this period, many workers struck against wage cuts or for higher wages, particularly in mining and textiles. The conclusion is inescapable: real wages rose in 1920-23, but thereafter were practically stationary. (In 1929 there was a noticeable rise in real wages and total wages, but it was wiped out by the depression; in fact the rise was bound up, antagonistically, with the spurt in production which marked the final aggravation of the forces of cyclical breakdown.) There was *no* policy of increasingly higher wages, an impossibility under the exploiting relations of capitalist production.\* From another angle this appears in the fact that for 1924-28, industrial wages (manufactures, mining, oil wells,

\* Still less was there any policy of high wages in the industries of the Southern states. The use of the newest, most efficient machinery, cheap raw materials and power, and a labor force the wages of which were regulated by the standards of living of a region comparatively undeveloped industrially, gave the southern employers an opportunity to realize extra profits.



III. THE SHARE OF LABOR IN PROSPERITY—1919-29.

quarries, construction and transportation) fluctuated around the 1923 level.

But there *was* a policy of increasingly higher profits. While wages were practically stationary, labor costs in 1929 were 9.5% lower than in 1923 and overhead costs and profits 10.6% higher, the one scoring an average yearly decrease of 1.3%, the other an increase of 1.7%.<sup>8</sup> Again the facts refute the theory that productivity rises before wages and wages necessarily rise as productivity rises. Real wages in manufactures began to rise in 1921 *before* any considerable increase in the productivity of labor, which forced employers to improve efficiency to safeguard profits. In 1921-23, labor shared in the gains of rising productivity. (A part of the increase in real wages came neither from higher productivity nor the lower prices of manufactured goods, but from the sharp drop in the prices of foodstuffs, which was ruinous for the farmers.\* Raw materials, moreover, were cheapened: their costs were \$2,500 million less in 1923 than in 1919, while money wages rose only \$500 million and "value added by manufacturing" rose \$1,000 million; nearly one-half of the raw materials consumed in manufactures are agricultural products.<sup>9</sup> But rising productivity in 1924-29 was not accompanied by any corresponding rise in real wages; productivity rose 22%<sup>10</sup> but real wages were practically stationary. In the ten years 1919-29 the productivity of labor in manufactures rose 43%, and there were similar increases in mining, transportation, and the power industry; real wages rose not more than 20% (partly offset by increasing unemployment). In final analysis, higher wages depend upon higher productivity, but productivity always increases more than wages, in *all* stages of capitalism, whether "unfettered" or under "control."

While real wages were practically stationary in 1924-29, relative wages fell sharply as profits rose, plainly revealing the antagonism between profits and wages. Relative wages, the share of the workers in the product of industry, fall continuously. The fall is usually greatest when the productivity of labor rises most rapidly, even if real wages increase, as profits rise more and the worker is cheapened by more productive labor. This appears clearly in the diminishing proportion

\* In England during the "Hungry Forties," when the productivity of labor and profits were steadily rising, the workers were starving. The situation was "relieved" by repeal of the Corn Laws, lowering food prices; real wages rose at the expense of agriculture, not of capitalist profits. Capitalist production completely ruined British agriculture. There is no danger of such *complete* ruin in the United States, but the tendency is in that direction.

wages constitute of "value added by manufacturing." The proportion fell from 51.1% in 1849 to 40.2% in 1909, rose to 42.7% in 1923, and fell to 36% in 1929, when the proportion of wages to "value added by manufacturing" was 30% lower than in 1849.<sup>11</sup> There was, naturally, a great increase in labor's yield of surplus value (Table IV).

TABLE IV

*Growth of Surplus Value, Manufactures, 1914-31*

YEAR	VARIABLE CAPITAL	CONSTANT CAPITAL		VALUE OUTPUT (millions)	SURPLUS VALUE (millions)	RATE OF SURPLUS VALUE	INDEX OF RATE
	WAGES (millions)	RAW MATERIALS (millions)	DEPRECIATION (millions)				
1914	\$4,068	\$6,500	\$500*	\$16,200	\$5,132	126.1	100.0
1919	10,462	14,500	1,016	39,250	13,272	126.8	100.5
1923	11,009	13,200	1,424	39,050	13,417	121.9	96.7
1925	10,730	13,600	1,506	40,400	14,564	135.7	107.6
1927	10,849	13,450	1,819	41,000	14,882	137.2	108.8
1929	11,621	15,450	2,018	47,100	18,011	155.0	122.9
1931	7,225	8,400	2,100	27,950	10,225	141.5	112.2

\* Estimated.

Surplus value, or unpaid labor, equals the value of output less the value of wages, raw materials, and depreciation on fixed capital; the rate of surplus value is the ratio of surplus value to wages. The surplus value realized in the form of commercial profit is not included.

Source: Wages, materials and output—Department of Commerce, *Statistical Abstract*, 1931, pp. 483, 813, and preliminary report of the 1931 Census of Manufactures; depreciation (including depletion)—Bureau of Internal Revenue, *Statistics of Income* for the respective years.

The rate of surplus value, of unpaid labor, was 22.9% higher in 1929 than in 1914 and 27.1% higher than in 1923. It fell temporarily in 1923 because of the fall in prices and the rise in real wages of the two preceding years, with which the employers had not yet caught up. But they did catch up in 1925, when the rate of surplus value moved sharply upward. The rate fell again temporarily, and slightly, in 1931, but the rate moved up sharply in 1932-34 because of another great increase in the productivity of labor. Thus, in 1929, relative wages fell to the lowest point in American history in the midst of an extraordinary rise in the productivity of labor, surplus value, and profits.\*

\* Falling relative wages are characteristic of capitalist production. The share of the German workers in the social product (1927 as 100) was 117 in 1913 and 94 in 1929. J. Kuczynski, "Der Anteil des Deutschen Industriearbeiters am Sozialprodukt," *Kölner Sozialpolitische Vierteljahresschrift*, January, 1931, pp. 85-95.



While real wages in general were practically stationary after 1923, the wages of union workers (except miners) kept on rising, 25% to 50% and more. In the building trades, hourly wage rates rose 33% in 1923-29; in eight union trades, rates rose 30% and weekly earnings 22%. No such upward movement occurred in the rates and earnings of the workers as a whole. In 1922-29 the average yearly rise in a composite index of real earnings (factory workers, unskilled labor, clerks) was 1.9%; in the union index it was 3.7%.<sup>12</sup> The rise of union wages, in most cases, bore little relation to the rise of productivity in the particular occupations; it was determined primarily by the power and strategic position of union labor in the sheltered trades. Wages were often stationary or fell among masses of unorganized workers where productivity gains were exceptionally large. There was only a small upward movement in the salaries of clerical workers, whose work was being intensively mechanized during this period. The unusually large rise in union wages was used to "prove" that all wages were rising rapidly. It was responsible for the conservatism of union workers and particularly of the union bureaucracy, which accepted the mythology of prosperity and believed that wages would rise everlastingly in this best of all possible worlds. But unskilled, unorganized workers, who make up from 25% to over 50% of the labor force, made hardly any gains; their real earnings in 1923-29 were not much higher than in 1919. An index of the real earnings of unskilled workers in manufactures, building trades, agriculture, and on the railroads (1914 as 100) rose to 116 in 1919, fell to 108 in 1920 and 97 in 1921, and rose to 102 in 1922, 113 in 1923 and 116 in 1926. Unskilled earnings rose slightly in the next three years. During the World War unskilled labor scored considerable gains, because of the scarcity of workers, narrowing the differential between the wages of skilled and unskilled; then the differential widened again.\* One investigator concluded: "Apparently the increase in productivity that has taken place has not contributed its share toward the increase of the wages of unskilled labor."<sup>13</sup>

How high, moreover, were "high wages" in the "Golden Age" of American capitalism, before the great depression? While among union workers, the aristocracy of labor, earnings ranged as high as \$40 to \$75 and more weekly, among other workers they were as low as \$10 weekly. Average weekly earnings among unskilled workers were below \$20. Nearly 2,000,000 workers in manufactures earned less

\* The differential in the wages of skilled and unskilled workers also narrowed in Europe during the war, but by 1930 it had again widened considerably. A. G. B. Fisher, "Education and Relative Wages," *International Labour Review*, June, 1932, p. 745.



than \$1,000 yearly. Railroad workers were among the best paid, yet section hands earned an average of \$17 weekly; 500,000 workers, one-third of all railroad workers, earned less than \$25 weekly. Average weekly earnings were below \$20 in lumber mills, cotton, tobacco, candy, and canned goods. Women workers usually earned from \$9 to \$14 weekly. The average weekly salary of all employees in one chain store organization in 1929 was \$22.71. In chain stores of the 5¢ and 10¢ variety, in spite of the phenomenal rise in sales and profits, average weekly earnings were \$12, with 25% of the girls earning less than \$10—earnings “not sufficient to procure the necessities of life.”<sup>14</sup> Among the workers as a class (excluding farm laborers), earnings were probably distributed as follows: 2,000,000 workers earning over \$2,000 yearly; 14,000,000 workers earning from \$1,250 to \$2,000; 12,000,000 workers earning below \$1,250. (Unemployed workers in 1923–29 averaged nearly 2,000,000 yearly.) The average yearly family income was not much larger than the individual average of \$1,250. An investigation in Chicago in 1924–26 established that the family income of semi-skilled and unskilled workers ranged from \$800 to \$2,400 yearly; the average was \$1,500, with the father, mother and one or more children working in 42.8% of the families.<sup>15</sup> The average yearly family income among workers as a class was probably \$1,700; family budgets based on “minimum requirements of health and decency” (excluding savings) were estimated as follows: New York City \$1,875, Philadelphia \$1,926, Detroit \$2,032.<sup>16</sup> Accordingly:

High wages were low wages in terms of adequacy to provide minimum requirements of living; grinding poverty prevailed, moreover, among millions of workers.

High wages were low wages in terms of the increase in the productivity of labor and in production, which greatly outstripped the increase in wages: productivity rose from 15% to over 200%, the average 43%.

High wages were low wages in terms of the possibility of still higher wages; all through 1923–29 (and this is characteristic of capitalism in all stages, “unfettered” or under “control”), wages could have been considerably higher if labor had shared in the gains of rising productivity and if the unused capacity of industry (25% to 75% in many cases, in the peak years 1928–29!) had been utilized to produce goods instead of standing idle because of the exploiting relations and contradictions of capitalist production.

To indicate the enormous progress implied in the policy of high wages, one of the myth-makers of prosperity<sup>17</sup> conjured up four stages

in the determination of wages. The stages are fantastic, revealing an astonishing flight from reality; the reality shows the actual mechanism of wage determination under capitalism:

1. Prior to 1900: Barbarism; wages were decided by force; employers considered labor a commodity, the workers had no theory of wages to offer in arbitration proceedings. *But real wages scored their greatest increase in American history.*

2. From 1900 to 1916: Progress; organized labor insisted that wages should be adjusted to cost of living; reformers developed theories of "living" wages and "minimum subsistence" wages; the Clayton Act, which "declared" that labor is not a commodity, was hailed as a great achievement. *But real wages were practically stationary.*

3. From 1917 to 1922: Reversion to barbarism; employers and workers again resorted to force, "threw off all restraints" and a "deplorable condition" of "industrial conflict" decided wages. *But real wages rose over 15%.*

4. From 1923 to 1929: Magnificent progress; employers "recognized" that "advancing wages" are the basis of prosperity; "old wages, theories and standards were scrapped along with obsolete machinery and methods." *But real wages were practically stationary.*

Two more stages may be added to complete the story:

1. From 1929 to 1933: Final exposure of the policy of high wages; employers cut wages drastically while the productivity of labor rose sharply; wages decreased more than in previous depressions.

2. From 1933 on: More progress, and the ballyhoo of Niraism; state intervention to "raise" wages and "spread" prosperity; lower real wages, total wages decrease while the productivity of labor and unemployment increase, profits rise, another major depression looms.

The depression destroyed the myth of the policy of high wages. Lip-service was paid to it at a conference of 400 "key" businessmen, called by President Hoover in December, 1929, which formed a permanent organization to "stabilize business" and to prevent the depression from developing any further. A solemn pledge was given that employers would not cut wages. The high officials of the American Federation of Labor solemnly accepted the pledge, and agreed to maintain industrial peace. One year later, Secretary of Commerce Lamont said: "It is a noteworthy fact that practically no cuts in wages have been made by the employers. This stands in marked contrast with the practice in previous similar recessions. It marks the widespread conviction that permanent progress in prosperity is dependent on liberal wages and consequent large buying on the part of the

masses of the people, and that recovery from any temporary setback will be promoted by the same policy." But the pledge not to cut wages was almost immediately violated. By April, 1930, William Green, President of the American Federation of Labor, was forced to "act" against the cutting of wages. "I propose," he said, heroically, "to join the movement in the next Congress to reduce the tariff protection" of employers who cut wages. And six months after his statement about "no cuts in wages" and "prosperity is dependent on liberal wages," Secretary Lamont said: "As the period of depression lengthens, many corporations are faced with the prospect of closing down altogether and thus creating more unemployment, or, alternatively, seeking temporary wage reductions."<sup>18</sup>

All through 1930, wages were cut drastically by employers, including those who had given the "pledge" not to do so. They were cut 10% to 15% in manufactures. The cuts in the bituminous coal, textile, and boot and shoe industries were so bad that William Green classed the employers as "public enemies." . . . By 1931, the policy of high wages was forgotten even in words, and leading representatives of capital were repeating the sentiments of 1920-22: Liquidate labor and high wages! The *Journal of Commerce* insisted that wage cuts "are among the various aids to business recovery." A convention of the American Investment Bankers Association demanded a cut in the wages of railroad workers, which *were* cut severely, to protect investors (including, of course, widows and orphans). The National City Bank: "Wage cuts are one of the encouraging features of the situation." Albert H. Wiggin, chairman of the Chase National Bank, who all these years speculated in the stock of his own bank: "It is not true that high wages make prosperity. When wages are kept higher than the market situation justifies, employment and the buying power of labor fall off. Many industries may reasonably ask labor to accept a moderate reduction of wages." . . . All through 1931, wage cuts beat upon the workers with increasing severity. From a high of 133 cuts in any one month of 1930 they rose to 335 in March, 1931; cuts averaged 10% in manufactures and 25% in bituminous mining. In 1931, according to Census figures, total wages in manufactures were 37.8% lower than in 1929 and average yearly earnings 15.6% lower. . . . One of the meaner aspects was sweating women and children in homework. In Pennsylvania, violations of the child labor law rose from 10% in 1930 to 18.8% in 1931, and violations of the woman's law from 3.8% to 17.8%. Earnings were as low as 12¢ an hour. In New York City clothing factories, women workers were paid from

\$1.75 to \$2.75 for a week's work. . . . The fall in prices was not enough to offset wage cuts, and real wages fell. Real earnings in manufactures in 1931 were 8% below 1929. In twenty-five manufacturing industries average weekly earnings decreased from \$28.54 in 1929 to \$17.10 in 1932, or 40%, and hourly earnings from 58.9¢ to 49.7¢, or 16%. In 1931, the hourly rate for unskilled workers in manufactures was 8% below 1901. The wages of hired farm labor were at the lowest level since 1916. . . . Clerical workers suffered more than in previous depressions; their work is now so thoroughly mechanized that they are practically wage-workers. The salaries of women clerical workers in New York City fell 25% to 40%. This is one of many similar advertisements which appeared in the newspapers of New York City early in 1933: "Wanted, Stenographer-Bookkeeper: This position in small office requires capability, experience, and industry, easily worth \$30 a week and more. Now offering \$12-15 a week. No beginners." The average earnings of clerical women workers were \$11.39 weekly; employers deliberately depended upon "charity taking the place of an adequate wage." One lawyer offered \$8 weekly for an expert typist with a knowledge of German; another cut the salary of his secretary, a college graduate, to \$6. . . . Workers in professional occupations had their wages cut and work hours increased. Dentists offered assistants weekly salaries of \$10 and less. College graduates, after preparing for professional service, of which there is a tremendous need, were offered this (advertisement in the *New York Times* and *World-Telegram*): "Graduates of Harvard, Yale, or Princeton to learn restaurant business starting as bus boys in famous Times Square restaurant; weekly salary begins at \$15; splendid opportunity."<sup>19</sup> Never was a myth as thoroughly exploded as the myth of the policy of high wages.

As a result of unemployment, wage cuts, and part-time work, wages fell to levels unprecedented in any other depression. Wages disbursed by corporations, probably 75% of the total, fell 21% in the worst year of the 1920-22 depression; in the worst year of this depression they fell 65% (Table V). The aggregate of wages, in the two years 1931-32, were not much higher than in the single year 1921, when the depression was at its worst. Total wages in 1932 were not only 65% below 1929 and half as much as in 1921-22, but were lower than in any year since 1910. In neither depression, however, did dividends and interest follow the fall in wages. They even rose slightly in 1921-22, while wages moved downward. In 1930, dividends and interest fell 1.8%, but were 7.7% higher than in 1928. As the depression became worse wages tumbled disastrously. Even dividends and interest, con-



TABLE V

*Dividends, Interest, Salaries, and Wages in Depression*

YEAR	DIVIDENDS-INTEREST†		OFFICERS' SALARIES		CORPORATE WAGES	
	AMOUNT (millions)	INDEX	AMOUNT (millions)	INDEX	AMOUNT (millions)	INDEX
1920	\$5,570	100.0	\$2,437	100.0	\$22,155	100.0
1921	5,617	100.8	2,258	92.7	17,525	79.1
1922	5,702	102.4	2,409	98.8	18,410	83.1
1929	10,686	100.0	3,336	100.0	24,675	100.0
1930	10,492	98.2	3,138	94.1	18,506	75.0
1931	8,674	81.2	2,698	80.9	13,151	53.3
1932	7,136‡	66.7	*	*	8,636	35.0

\* Not available.

† Dividends for 1920-22 include only the amounts received by income-taxpayers; other years include all dividends disbursed less intercorporate dividends.

‡ Estimated.

*Source and methods of computation:* Dividends, interest, and officers' salaries—*Statistics of Income*. Wages for 1920-22 are the estimates of W. I. King, *The National Income and Its Purchasing Power*, p. 132, of which 75% is assumed to be disbursed by corporations. For later years wages have been estimated as follows: According to the United States Bureau of Labor Statistics, wages in manufactures in 1929 were the same as in 1926; applying this ratio to King's estimate of total wages in 1926 and allowing for the fact that the Census reports of wages in manufactures constituted 35.3% of total wages in 1923, 1925, and 1927, yields the figure of total wages for 1929. The Census for 1931 reports wages in manufactures of \$7,225 million, 62.2% below 1929; but as unemployment was greater in other industries, it is assumed that manufacturing wages constituted 50%, instead of 44%, of total wages. The Bureau of Labor Statistics estimates that wages in manufactures were 80% of 1929 in 1930 and 38% in 1932; application of these ratios to total wages for 1929 and an allowance for greater unemployment and wage cuts in non-manufacturing industries yields the figures for total wages for 1929 and an allowance for greater unemployment in non-manufacturing industries yields the figures for total wages in 1930 and 1932.

trary to the former experience, were affected by the unusual severity of the depression.\* They were, however, fairly generously maintained. *In the three years 1930-32, aggregate interest and dividend payments were 54.9% higher than in 1921-22, while wages were 25.2% lower.* This is progress, undoubtedly, in the protection of the income of the owning class, but not in preventing depression, mass unemployment, and mass starvation. And the policy of high wages? *In 1930-32 wages averaged only 54.6% of the 1929 level, dividends and interest 82.4%.*

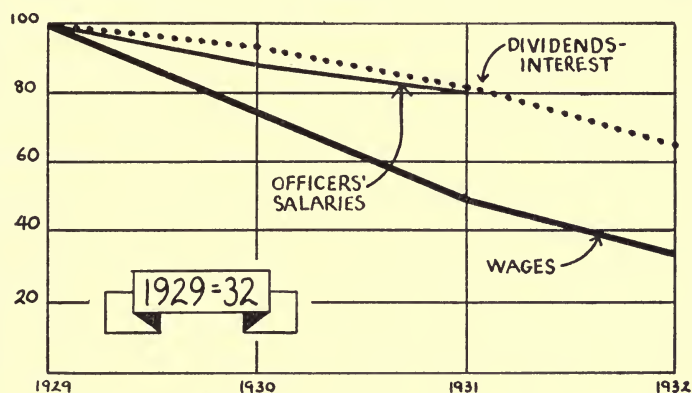
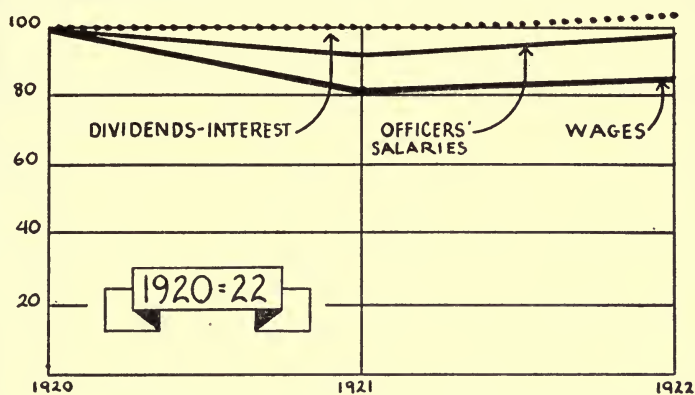
\* Except interest on federal, state, and municipal bonds; this rose steadily until it exceeded \$1,560 million in 1932. *New York Times*, January 29, 1934.



Generosity in the payment of dividends and interest undermines prosperity and prolongs depression.

Beating down wages was the primary method of maintaining dividend and interest payments. Sometimes this assumed peculiarly revolting forms. The railroad managements, for example, secured a wage "deduction" on the plea that the saving would be used to stabilize employment, but it was actually used to pay dividends. A minor method consisted of downright swindle. In 1931-32 four of the largest New York guarantee mortgage and title companies paid dividends of \$13,150,000, at rates ranging from 4.5% to 25%, after invoking the clause which permitted them to defer (that is, default) payments of interest and principal on mortgages. Holding companies plundered subsidiaries to maintain their own dividends. But interest and dividend payments were maintained also by dipping into surplus, for net income decreased severely and deficits mounted. Corporations retain a considerable part of their earnings; one part is reinvested, another part is put into cash reserves, salable property outside the business, and government securities. This practice represents an accumulation of "rainy-day funds," according to one authority, "as an insurance that dividends will be maintained." Out of these "insurance" reserves corporations pay dividends when earnings fall or deficits arise, both in prosperity and depression. In 1930, surplus amounted to \$54,898 million; of this \$10,000 million was invested in tax-exempt government securities, yielding an income of \$536 million. Corporate surplus was "dipped into" to the extent of \$10,760 million in 1930-31.<sup>20</sup> The corporation executives who practice dividend insurance sternly reject compulsory unemployment insurance as a menace to "our sturdy American individualism." So do those rugged individualists, the stockholders, who do not consider it demoralizing to accept the "dole" of dividend payments which are not earned.

The officers of corporations not only take care of the stockholders (and of themselves as stockholders), but also take care of themselves as officers. In the depression of 1921-22, officers' salaries were fairly well maintained, while net earnings fell and wages were slashed. In 1930-32, the fall in wages compared with salaries was even greater than in the previous depression. Salaries were higher than in 1921-22, wages lower. What fall there was did not affect the "big" captains of industry and finance. Many even managed to increase their compensation considerably. From 1929 to 1933, while the bank of which he was chairman was losing millions, Albert H. Wiggin "earned" \$1,500,000 in salary and bonuses. He made more millions speculating



WAGES: DOWN 25%  
DIVIDENDS-INTEREST: UP 55%



#### IV. CAPITAL AND LABOR IN DEPRESSION.

in the bank's stock. Upon retiring as chairman, Wiggin was voted a life salary of \$100,000. The assets of the four largest life insurance companies shrank "alarmingly," yet officers' salaries rose from \$970,000 in 1929 to \$1,180,000 in 1932. These are all mutual companies, run solely, according to their masters, in the interest of policyholders, particularly the widows and orphans. While wages were cut severely on the railroads, presidential salaries of \$80,000 to \$120,000 yearly were increased or maintained. The officers of public utility corporations, which did not cut rates although wages and prices fell, were very keen on taking care of themselves. Officers' salaries in five electric companies in New York City were from 17% to 77% higher in 1932 than in 1927. One company, in 1933, simultaneously raised its officers' salaries and cut the payroll 8%. Another raised administrative salaries from \$149,700 to \$230,000 and cut the payroll \$1,500,000. The salary of the president of an aircraft company was raised from \$100,000 in 1929 to \$192,500 in 1932. One tobacco company in 1932 paid its president \$2,627,000 in salary and bonuses.<sup>21</sup> The large corporations of to-day, where ownership is separated from management and control, resemble a feudal barony. They are run primarily in the interest of the officers and their financial capitalist masters. Then come the stockholders, who are plundered in many ways. Labor is a poor third.

Clearly there is a fundamental antagonism between profits and wages. It is irreconcilable. Wages are not determined under the "ideal" conditions assumed by bourgeois economists, whose wage theories accept the permanence of capitalism and justify the exploitation of labor. Within the limits of the value of labor power (itself an historical category), competitive conditions in the labor market, and the expansion of capitalist production, wages are determined by class power and class action. The movement of wages is, however, limited by conditions which perpetuate and increase capitalist exploitation. Even when wages rise, they fall relative to profits, which rise still more. Profits and wages move inversely: the one rises as the other falls. Profits may rise because wages fall or wages may fall because profits rise; but the tendency is for wages always to fall relatively to profits. This augments the mass of capital and its power to exploit the workers. But it simultaneously sets in motion the forces which create economic disproportions and cyclical breakdown, and cumulatively develop the elements of the decline of capitalism. The antagonism between profits and wages becomes stronger in the epoch of capitalist decline, when production tends to move downward because of the exhaustion of the long-time factors of economic expansion. Competitive condi-

tions in the labor market are aggravated by the increasing mass of unemployed workers. The capitalist class beats down wages and standards of living to compensate for the fall in production and profits.

## Profits and Wages: State Capitalism

THE prophets of the pre-1929 "new capitalism" assumed that the "policy of high wages" had ended the antagonism between wages and profits. Enlightened employers, they insisted, recognized that prosperity depends upon the workers receiving a "balanced" and "proportional" share in production and productivity gains in the shape of increasingly higher wages. As that assumption was shattered by the depression, the prophets of Niraism assume that state intervention will "balance" wages and profits. But state capitalism aggravates, it does not abolish, this most fundamental antagonism of capitalist production.

It is assumed that the real purpose of Niraism, and of the state capitalism of which it is an expression, is to "balance" wages and profits and production and consumption, and thus "safeguard" prosperity. But this would mean control of all economic activity. It would mean control of production, prices, and consumption, of wages, profits, and income, of the output of capital goods and consumption goods, of capital accumulation and investment, of industry and agriculture. All of these elements, under capitalism, affect the antagonism between wages and profits, and are affected by it. Complete control of economic activity means the planned economy of socialism: it is impossible under the antagonistic, profit-making relations of capitalism. Incomplete control by the capitalist state, as in Italy and Germany, in France and Britain, and its American beginnings in Niraism, is an expression and aggravation of the decline of capitalism. "Controls" repress instead of liberate economic forces. The attempts to "ease" one disproportion create or intensify other disproportions. Thus "easing" the farmers' burdens by inflation raised the prices of the goods they buy more than the prices of the goods they sell, and decreased purchasing power among the workers by lowering the real value of wages. The scope and objectives are limited by the desire to "save" capitalism. Under state capitalism all the essential relations of capitalist production are retained. Within modifications, limitations, and "controls," economic activity moves in the same con-



tradictory and antagonistic fashion as under "unfettered" capitalism, and the movement decrees that wages *must* lag behind profits.

Wages always lag behind profits. A general rise in wages may mean more consumption and production, but a general rise is rare, depending upon falling prices and labor's militancy. The rise ends, moreover, in the fall of wages relatively to profits as employers increase the productivity of labor and profits. Wage increases are voluntarily granted only in exceptional cases: to "key" workers and on piece rates (afterward cut) to raise the productivity of labor, resulting in an absolute or relative decrease in total wages and a displacement of workers. Low wages may not necessarily mean low costs, but low wages and an increasing productivity of labor mean lower costs and higher profits.

The fatal flaw in the "policy of high wages" was this: Higher wages might mean more consumption, production, and profits, but as employers were free to raise or not to raise wages, the employers who did not raise wages would gain more than the employers who did, because in terms of a particular enterprise higher wages mean relatively lower profits.

The fatal flaw in the proposals of Niraism, of state capitalism in general, is this: If the "fixing" of minimum wages raises labor costs (although minimum tends to become maximum), profits must fall, and efforts to increase the productivity of labor to lower costs and raise profits must be intensified, resulting in an absolute or relative decrease in total wages and employment.

Profits are not made by paying the workers higher wages. They are made by forcing down wages relatively to profits, by appropriating more surplus value, more unpaid labor. If \$1,000 million are added to wages it would increase consumption and production; the capitalists would make only a very small profit, however, on the additional output and sales. If the capitalists retain the \$1,000 million as profits, their wealth is correspondingly augmented and its investment creates new claims upon labor, production, and income. It is not that part of labor's product (wages) consumed by the workers as means of subsistence which enriches the capitalists, but that part of labor's product (profits) converted into capital goods. Capitalist production means accumulation of capital, an increasing output and absorption of capital goods, thereby converting profits into capital and permitting an increasing exploitation of labor. Profits and wages must necessarily clash and profits beat down wages, whether capitalism is "unfettered"

or under "controls." The antagonism is revealed by the movement of cyclical revival:

In the four months of cyclical revival in April–July 1933, industrial production rose 50%, total wages 20% and employment 10%. (These percentages are approximations, but they accurately indicate the trend.)

In the first four months of cyclical revival in 1921 industrial production rose 10%, total wages 8% and employment 6%.<sup>1</sup>

In both revivals, employment and wages lagged behind production (and profits). It was the same after the minor depressions of 1924 and 1927. According to the *Wall Street Journal*: "It is a natural development for profits and production to forge ahead of employment and wages in recovery."<sup>2</sup> But there was one significant difference: *the unequal rise of production and of employment and wages was much greater in 1933 than in 1921*. Not only was the inequality not overcome, it was aggravated.

Part of the greater lag of employment and wages behind output (and profits) was a result of the sharper cyclical decline of production in 1929–33. The minimum labor force maintained was capable of a larger increase in output than in 1921, without any large increase in employment and wages. But there were two more important factors. One was the higher productivity of labor, which, according to the National Bureau of Economic Research, rose 12% in 1929–32 compared with only 7% in 1927–29;<sup>3</sup> it rose again sharply in 1933. The other factor was the strong drive to "earn" profits to resume or increase dividends and strengthen depleted financial reserves. Profits shot up almost magically. In the first quarter of 1933, 205 large corporations in manufactures, mining, and services, with a "net worth" \$7,443 million, had a deficit of \$14,831,000; they made profits of \$86,878,000 in the second quarter and of \$129,576,000 in the third quarter. In the first nine months of 1933 their profits rose to \$200,367,000 compared with \$30,266,000 in the previous year. The net income of 125 corporations rose from \$57 million in 1932 to \$246 million in 1933, an increase of 331%. In the case of General Motors, profits rose from \$165,000 to \$83,214,000.<sup>4</sup> The rise in profits soared beyond the small rise in production and the smaller rise in employment, and wages. And in part of the third and all of the fourth quarter, *higher profits were accompanied by decreasing production, employment, and wages*.

The NRA was not in action in April–June, when employment and wages lagged behind the inflationary rise in production and profits. But the same condition prevailed in July and after, when the NRA *was* in action. The NRA, moreover, shared direct responsibility for

the lag of wages behind production and profits. Its wage policy, in spite of the pretentious claims, was in accord with the employers' interests. It set terribly low minimums, restrained workers on strike for higher wages, and cut real wages by the inflationary rise in prices.

The policy of fixing minimum wages was belated reformism. Always limited and largely illusory, it might have had some value during prosperity, in the epoch of the upswing of capitalism. In depression and decline, the policy merely "fixes" wages at prevailing low levels. Only a small part of the workers were affected by the minimum wages. Their practically permissive character, moreover, allowed employers to evade paying the minimums. Evasions involved all sorts of contemptible expedients and merciless pressure upon the most helpless workers, particularly Negro and "alien" workers. As bad as the evasions was the character of the minimums. In no case were they even an approach to a decent standard of living. In all cases the minimums were based on depression wage levels. In many cases they were below prevailing average wages.

There was some increase in some wage rates, mainly among the most exploited workers and only in comparison with the low depression levels; but that was offset by the lesser number of hours worked and the rise in the cost of living. In 312 New England companies, 90% operating under NRA codes, weekly hours worked fell 16% from June to October, 1933; average weekly earnings rose only 6%. According to the NRA Administrator in New York City, employment rose 20% from August 1 to November 1, payrolls only 13%. By November, hourly wage rates in sixteen producing and distributing industries had risen 5½% and average weekly earnings 3% over 1932. The low level of wages in many cases is demonstrated by one of the major reasons for the Civil Works Administration's liquidation of its make-work activities which began in January, 1934; it was, according to the *New York Post*, "bowing to the demands of employers, particularly in the South, who say workers are quitting them to get on the government payroll at better wages."<sup>5</sup> The CWA paid average wages of \$9 to \$14 weekly to the great majority of its workers!

The minimum wages tended, moreover, to become the maximum, a complaint made again and again by labor leaders, who did little about it. This affected all categories of workers. Among "white collar" workers, according to the New York University Employment Bureau, the NRA drove down wages: "The \$20 to \$22 job is now about a \$15 job, because employers tend to keep their wages around the NRA minimum."<sup>6</sup> Because of their unorganized condition, the technicians

were hit hard. In one code qualified chemists got \$14 weekly; in another, technical employees got 35¢ to 45¢ an hour. "The technicians now find themselves in many cases receiving about *half* the wages of skilled labor under the NRA codes. No provisions have been made for them in the codes of many industries, the technicians being conveniently regarded as 'superintendents' or 'executives.' In many cases the men are receiving only the minimum wage provided for unskilled labor."<sup>7</sup> The result of the minimum wage "fixing" was a tendency to break down the differentials between skilled and unskilled and semi-skilled workers. It is desirable to decrease the differentials: they are largely artificial, altogether too great, and they create antagonisms between different groups of workers. But the NRA breaks down differentials not by raising the wages of the poorer-paid workers but by lowering the wages of the better-paid—a development characteristic of the decline of capitalism.

Real wages fell considerably because of the inflationary rise in prices and the cost of living. Food prices in December, 1933, were 7% higher than one year earlier. On December 1, 1933 the retail price index was 26.8 higher than in May; 10% less units were sold in 1933 than in the previous year.<sup>8</sup> Yet production was 10% higher, mainly because of increases in inventory stocks in anticipation of more inflation.

After nearly four years of depression the workers began to act. There was an upsurge of strikes for union recognition and of strikes for higher wages. But the NRA acted as a brake upon the efforts of the workers to raise wages. A favorite answer of employers to workers striking for higher wages was: "The demands are far beyond limits fixed by the code."<sup>9</sup> Thus strikers were put in the position of fighting the government, as limits in the code were fixed by the government apparatus of the NRA. The codes were framed by representatives of capitalist government and capitalist industry; in most cases organized labor did not even get the meaningless courtesy of "advisory" participation. Employers appealed to the NRA against strikes, and its pressure was used to drive the workers back to work. Strikes were not made illegal, but the apparatus of the NRA was mobilized to discourage, prevent, and "settle" strikes. This included a National Labor Board to mediate, that is, suppress strikes. It was made clear that strikes were an "interference" with the recovery program. The discouragement of strikes and the driving of strikers back to work was assisted by the reactionary labor leaders, who considered the National Industrial



Recovery Act a "charter of labor"—the same leaders who in 1923–29 extolled the "policy of high wages" and the "new capitalism."

Labor leaders and liberals declared that Niraism's "recognition" of trade unions and collective bargaining was a great victory for the workers. But "recognition" was tied up with the NRA, an expression of state capitalism. It represents the imposition of state controls over independent unionism and the lowering of wages in the epoch of the decline of capitalism.

One of the motives of "recognition" was to prevent labor revolts and an upsurge of radical forces. The NRA program was beset with dangers. Revival was slow and incomplete, wages small and prices rising. Labor might revolt. It had to be cajoled and shackled. Direct repression was dangerous under the prevailing conditions: labor revolts might mean disaster. Hence the resort to cajolery and shackles. Millions spent on relief and "make work" schemes might make workers forget the billions handed out to corporations. "Recognition" of trade unions and collective bargaining would satisfy and intrench the union bureaucracy, which would act—and did—as a bulwark against an upsurge of labor militancy. At the beginning, moreover, state capitalism clings to formal democracy, decks itself in the older ideology, attempts to rule by "balancing" class interests.

Another motive of "recognition" was to secure mass support for the NRA and force it upon employers resisting its "controls." Not all employers accept new developments, even when they are in their own interest, particularly if disadvantages are imposed upon some groups of employers. (The NRA increases the differentials in favor of the larger employers and corporations over the smaller.) State capitalism may use compulsion over certain capitalists or groups of capitalists. The struggle is not, however, one of government and labor against the capitalists. It is between capitalists who cling to old ideas and those who see the necessity of changes, with the government emphasizing the new conditions and new needs in the interest of the capitalists as a class. To accomplish its ends, government may use labor and liberal sentiment—temporarily, within limits, and under safeguards. Thus strikes, in which workers' blood was shed, and threats of strikes were a factor in the operators' acceptance of the bituminous coal code.

There was danger, however, in mass support secured by union "recognition" and in promises, accepted seriously by the workers, of higher wages. The NRA acted accordingly.

Recognition was virtually limited to existing unions. The closed



shop was rejected, because, according to General Hugh Johnson, NRA Administrator, it "would amount to employer coercion which is contrary to law . . . especially if the union did not have 100% membership." This was driven home by H. I. Harriman, president of the Chamber of Commerce of the United States: "The closed shop is prohibited by the Recovery Act." Under the NRA, there was, according to the National Industrial Conference Board, an increase of 180% in the number of company unions of one form or another; of 3,314 manufacturing and mining concerns employing 2,585,740 workers, 653 concerns, employing 1,163,575 workers had company unions, and only 416 concerns employing 240,394 workers recognized trade unions.<sup>10</sup>

The NRA developed an apparatus to control labor, prevent strikes, and restrict independent unionism. This appears in the mediation functions of the National Labor Board. It appears more clearly in the labor provisions of the Code of Fair Competition for the Bituminous Coal Industry.<sup>11</sup> In the preliminary hearings to frame the code, suggestions to give labor "adequate representation" were brushed aside by the operators' objections. The code set up six divisional code authorities, all of whose members (except one, with no vote, appointed by the President of the United States) are representatives of the coal operators. No provision was made for a labor representative, nor for labor representatives on the governing body of the industry, the National Bituminous Industrial Board. Six labor boards, of three members each, were set up, *all the members appointed by the President*, one from nominations by "organizations of employees," one from nominations of the divisional code authorities (on which only the employers and the government are represented), and one "a wholly impartial and disinterested representative of the President." The code grants the operators measurable self-government in the form of what are virtually cartels, with powers to "prevent destructive price-cutting," the government reserving, in state-capitalist fashion, the right to intervene. *But labor is subordinated to the employers and the state*: even labor's one-third representation on the labor boards is under control of the President. The President can always find an amenable "labor leader." This was demonstrated during one of the coal strikes involving 75,000 workers. At one o'clock in the morning President Roosevelt telephoned to Philip Murray, vice-president of the United Mine Workers of America. This was the conversation:

ROOSEVELT: Philip, I want you to get these men back to work.

MURRAY: If there's anything in God's world I can do for you, I will be glad to try.

In reporting the conversation to the strikers, Murray added:

"Any union or union officials who refuse to obey the President's command will not live very long."<sup>12</sup>

A formal protest was made by William Green, president of the American Federation of Labor, and John L. Lewis, president of the United Mine Workers of America, who declared that "the labor boards are meaningless and unsatisfactory to labor."<sup>13</sup> The protest was unavailing. And the boards are not meaningless, they are an employer-state apparatus for the control of labor. The labor leaders then characteristically shifted their objective to a compromise, empty in itself but capable of being called a victory. They asked, and secured after much shilly-shallying, representation on the National Bituminous Coal Board in the person of John L. Lewis.\* But of the board's members nine are direct representatives of the employers; five are appointed by the President, one for each divisional code authority on which employers alone are represented; and two are Presidential appointees at large.<sup>14</sup> Thus labor has one out of sixteen members on the National Coal Board, he is appointed by the President, and the appointment is not compulsory. It *was* a famous victory!

As strikes multiplied and the NRA felt more sure of itself, it moved toward the outlawry of strikes. This policy and its threat were expressed belligerently by General Johnson at the convention of the American Federation of Labor:

"The very foundations of organized labor are at test here and now. . . . Labor does not need to strike under the Roosevelt plan. . . . The plain, stark truth is that you cannot tolerate the strike. . . . In the codes you are given complete and highly effective protection of your rights."<sup>15</sup>

These developments are wholly in accord with the state-capitalist nature of Niraism. The NRA may change its forms or be replaced by another apparatus, but the labor-capital slant of state capitalism will remain the same.

The controls imposed upon capital are in the interest of capital.

\* A few days after the coal code was adopted, Lewis signed a "collective bargaining" agreement with the non-union operators, which grants employers the exclusive right to hire and fire, prohibits strikes, and adds: "Under no circumstances shall the operators discuss the matter under dispute with the mine committees or any representatives of the United Mine Workers of America during a suspension of work in violation of this agreement." *New York Times*, September 22, 1933.

They release capital from restrictions, particularly the anti-trust laws, and implement its powers over industry and labor.

The controls imposed upon labor are *not* in the interest of labor. They institutionalize labor's subordination to capital, progressively deprive unionism of its independence, and tend to outlaw strikes, labor's most effective means of struggle for higher wages.

There is no contradiction in the NRA "recognizing" trade unions and collective bargaining while imposing safeguards and controls which limit labor's independence and action. For state capitalism is, in one aspect, an attempt to "balance" class interests, since it still operates within the confines of bourgeois democracy. It must make concessions—if only in words—to the different classes. Thus unions and collective bargaining are recognized, labor is given representation, if only advisory, on arbitration and other tribunals, labor laws are adopted, and labor code authorities are set up. In pre-fascist Germany, where state capitalism was highly developed, a whole labor jurisprudence arose, a "constitutional labor order," considered by the social-democrats a "step toward" socialism (it ended, however, in fascism). But the whole process proceeds within the limits of capitalism and on the basis of the state, and is consequently dominated by the economic and political weight of the capitalist class. The process, moreover, is an expression of the decline of capitalism, when concessions—if only relief—are a burden upon capital. As state capitalism attempts to reconcile economic and class antagonisms, they become constantly more acute. Hence the "recognition" of labor is accompanied by laws and acts for an increasing coercion of labor. The role of the state as strikebreaker becomes more necessary and is strengthened. In the epoch of the decline of capitalism, both employment and wages fall. The workers resist. Resistance tends to become revolutionary, as the burdens of decline are thrust upon the workers. The state intervenes more ruthlessly to deprive labor of the possibility of independent action and revolutionary initiative. This policy of suppression assumes its most complete and brutal forms under fascism. . . .

The upward movement of real wages in 1921-22 was conditioned by the militant struggles of labor against wage cuts. In 1933-34, although there was an upsurge of labor militancy, strikes were broken and the results limited by the NRA apparatus for the suppression of labor. (Later, distrustful of the NRA, labor was more successful.)

The upward movement of real wages in 1921-22 was conditioned by the fall in prices, which increased the purchasing power of wages. In 1933-34, real wages fell because of the desperate resort to inflation and

the tendency of the NRA to maintain money wages at low, fixed levels.

The upward movement of real wages in 1921-22 was conditioned by the expansion of production; this transformed cyclical revival into a comparatively high level of prosperity. Revival seized upon the production of capital goods, the sustaining force in prosperity, because of the working of long-time factors of expansion. In 1933-34, revival was speculative and incomplete, it was not forced upward by an increasing production of capital goods, which lagged behind even the small increase in production. This was a result of exhaustion of the long-time factors of expansion, of the decline of American capitalism.

Niraism insists that its objective is to decrease unemployment and increase purchasing power. But the objective and the means are limited by the nature of capitalist production, and limited still more by the conditions of capitalist decline. In previous cyclical revivals, employment and purchasing power rose because of the onward sweep of recovery. The incomplete character of recovery forces Niraism more and more to expedients. Unemployment is "decreased" by "spreading" work and "making" work, measures with very definite limits. Purchasing power is "increased" by slightly raising total wages and lowering average wages: a peculiar way of increasing purchasing power, but profitable to the capitalists. "It is," says a bourgeois economist, who urges drastic wage cuts, "the amount of the total wage bill and not the height of the average wage which affects the aggregate volume of spending. Indeed, two laborers each receiving \$3 per day would be more certain to spend at once nearly all their income than would one wage-earner receiving \$6 per day, for their wants would be more urgent."<sup>16</sup> The smaller the wage the larger the proportion spent on immediate consumption; the "higher" the wage the larger the proportion saved, and labor's savings are of course unnecessary where there is an abundance of idle capital or of unused capital equipment. Consumption is to be "increased" by depriving employed workers of that part of their wages which they might save and pay it to newly employed workers, forcing *all* wage income to be spent. Thus standards of living are lowered under the conditions of the decline of capitalism. Wages are being cut in all capitalist nations. The fascist government of Italy orders another cut in wages and salaries, after the cut in 1930 of 10% to 12%, in order that Italian capitalists may compete more effectively in the world market, where they are being "under-sold." Compensation is offered in the form of a simultaneous and equal cut in the prices of food, rent, and transportation, but this in



practice never equals the cut in wages. In 1932, the German employers were permitted to pay newly employed workers about one-half of the prevailing wages. This policy of the von Papen government took the form, in the policy of its fascist successor, of permitting employers to cut the wages of employed workers if the "saving" was used to hire additional workers; the Hitler government justified the cuts as a means of "increasing" employment and "maintaining" payrolls.<sup>17</sup> These are the desperate resorts of capitalism tormented by decline and trying to save itself by thrusting the burdens of decline upon the workers.

Wages and employment lagged behind production and profits in the revival of 1921-22, in the prosperity of 1923-29, and in the "revival" of 1933-34. Nor was the lag a result of the NRA in its early stages depending more upon "persuasion" than "force," placing faith in the voluntary action of "enlightened" employers, much in the manner of the "Golden Age" of pre-1929 prosperity. As Niraism becomes full-fledged state capitalism and "controls" are stiffened, the clash between wages and profits is sharpened. State intervention to "fix" wages and prices, and the general tendency of profits to fall under the conditions of decline, results in a greater drive to improve technological efficiency and raise the productivity of labor, which are *not* under control. Considering the problem from the angle of price-fixing, a bourgeois economist concludes: "Prices construed as 'fair' . . . will put a premium on efforts to lower the cost of production for the sake of much higher profits. This will be done by investing more capital in order to increase the productivity of labor."<sup>18</sup> That is assuming that prices are fixed downward. They may be fixed upward, and thereby directly increase profits and indirectly decrease wages. But as state capitalism operates in the orbit of the decline of capitalism, the tendency will be for profits to decrease. This sharpens the clash between profits and wages and multiplies capitalist efforts to lower wages in favor of profits. The government intervenes directly to cut wages, as in Germany and Italy.

Wages always lag behind profits. The lag assumes three major forms:

In the epoch of the industrial revolution and for some time afterward, wages fell but profits rose greatly.

In the epoch of the upswing of capitalism, wages tended to rise but profits rose still higher.

In the epoch of the decline of capitalism profits tend to fall, but



wages fall still more; profits move up relatively as wages move downward.

In the epoch of the upswing of capitalism there was a relative fall in the workers' standards of living. In the epoch of decline there is an absolute fall in the workers' standards of living. This means a return to the state of "increasing misery" characteristic of early capitalism, aggravated by all the burdens of imperialist wars. . . .

The conditions of capitalist decline, of which Niraism is an expression, limit the expansion of industry and the opportunities for profitable investment of capital. Profits tend to fall. The fall is all the greater because of the burdens of taxation imposed upon industry. These burdens result from the state pouring public money into industry, measures to safeguard profits, relief for the constantly growing masses of the needy unemployed, an increasing bureaucracy, and multiplication of the costs of armaments and war. The efforts to save capitalism are of a strangulating nature. Above all, they strangle the workers. All pretense of a policy of high wages is abandoned. The pack begins to bay in one swelling chorus: "Cut wages!" In the name of theory the economists of France, Germany, and Italy insist that wages must fall. W. A. Beveridge, A. C. Pigou, Henry Clay, and other English economists insist that wages must fall. In the United States, Prof. W. I. King \* and others insist that wages must fall. True, these American economists are now overwhelmed by the pretentious "high wage" chorus, but they will come into their own. And the economists base their arguments upon what is essentially the theory of laissez-faire economics, which was never very real and is almost wholly unreal in the age of monopoly capitalism and imperialism. State capitalism justifying wage cuts in the name of laissez-faire! The economists will generously admit that high wages are good, that they are a human and cultural necessity. But they must fall because of inexorable economic necessity. If wages fall employment will rise. Thus the economists abandon the hope of progress, and offer only the prospect of lower standards of living. And they forget that lower wages and lower costs are not necessarily translated into lower prices and higher demand, particularly in the epoch of the decline of capitalism.

\* King is an "objective" economist whose objectivity completely accepts and justifies capitalism. He considers economics a "science," but a science which refuses to go beyond the relations and needs of capitalist production. It is an interesting phenomenon that the more "objective" the economist, the more he is an apologist of capitalism. Thus King urges, on what he insists are wholly scientific and objective grounds, that wage cuts are necessary to revive prosperity.

The economists insist that lower wages and lower costs are necessary to increase foreign trade; but they forget that all capitalist nations are lowering wages and costs and raising tariff barriers. Wages must be cut to increase profits and stimulate the production of capital goods; but capitalist industry is now capable of absorbing only a *decreasing* output of capital goods. The arguments of the economists are mere apologetics.

As profits fall or tend to fall, in the epoch of the decline of capitalism, wages are driven down to maintain profits. Wages can rise only when there is an unusual expansion of industry. As expansion becomes limited, wages must fall, absolutely and relatively. Increasingly larger numbers of workers become permanently unemployed. Their pressure tends to lower the wages of the employed workers and is used by the employers to beat down wages. Total and average wages fall. Low standards of living are lowered still more. The capitalist state imposes upon the workers as much as it can of the burdens of higher taxation. Relief and the social services are cut, and the bourgeois economists manufacture theories to justify the cut. The conditions of decline torment not only the workers, but constantly greater circles of "white collar" workers, professional workers, small businessmen, farmers. Out of these developments arise sharpened class antagonisms, the struggles of capitalism, fascism, communism: an era of social explosions and change.

## Summary

THE prosperity which flourished in 1923-29 was the result of an unusual combination of the long-time factors of expansion. In the revival of 1922, building construction, in which the war had created a great shortage, led the upward movement. It was invigorated by the development of electric power and the automobile and of new or comparatively new industries such as radio, moving pictures, and chemicals. The old stimulus of the undeveloped inner continental areas was partly replaced by the export of capital and imperialism, an exploitation of the international long-time factors of expansion.

These developments produced increasingly higher profits and their conversion into capital by means of an increasing output and absorption of capital goods, the basis of prosperity. Both the investment of capital and the growth of industry's capital equipment proceeded on an immense scale.

As is usual in prosperity (it is a very condition of its being), the profit-makers scored the largest gains. The farmers were wholly excluded, and their exclusion was itself an element of capitalist prosperity. While the workers' real wages rose in 1921-23, because of falling prices, they were practically stationary thereafter. Wages fell relatively to profits. Yet the productivity of labor and surplus value rose more than in any other recent period in American history.

There was, thus, no "policy of increasingly higher wages" in the pre-1929 prosperity. It was a policy of higher profits. And the pretense was completely exposed by the depression, when wages were slashed mercilessly. But the policy reappears in a slightly different form in the ballyhoo of Niraism: the government is to "fix" wages, to "balance" profits and wages in the interest of an everlasting prosperity. The practice of state capitalism is everywhere, however, one of protecting profits, not wages. And under the reign of Niraism wages are falling. Wages *must* fall in the epoch of the decline of capitalism because the making of profits and their conversion into capital is restricted, as exhaustion of the long-time factors of expansion tends to lower production and profits. This tendency may be interrupted by short-lived spurts of prosperity, by the "black magic" of imperialism and war.

The interruptions will be temporary and eventually disastrous, intensifying the decline of capitalism.

Whether "unfettered" or under "controls" capitalist production imposes definite limits upon the rise of wages. The limits move downward in the epoch of decline. Underlying the limits, both in prosperity and depression, in upswing and decline, is the accumulation of capital and its contradictions, which constitute the dynamics of capitalist production.

PART THREE

Contradictions of Accumulation





## Introductory

PROFITS and wages clash, and profits beat down wages, because the accumulation of capital is the primary aim and driving force of capitalist production. In its origins, development, and decline, capitalism is inseparably identified with accumulation.

The accumulation of capital means the conversion of profits into capital. Profits are realized surplus value, the surplus product of the workers which the capitalists appropriate through ownership of the means of production. As surplus value and profit are unpaid labor, wages and profits move in inverse ratio: the lower the one, the higher the other. The capitalists consume only a part of the surplus product they appropriate; if they consumed it all, there would be no accumulation and no expansion of industry, and, consequently, no new profits yielded by new capital. A part of the surplus product must be transformed into capital, which takes the form of capital goods to produce more profits. Thus accumulation depends upon the capacity of industry to make profits and to transform them into capital by means of an increasing output and absorption of capital goods. Capital goods, the growth of capital plant, multiply and secure capitalist wealth and its claims upon labor, production, and income.

Accumulation is accompanied by the expansion of production and an increase in its scale of operation. Where the handicraft worker dominated his tools and simple machines, working up limited amounts of raw material, the worker in capitalist industry is dominated by the massed mechanical equipment of production, working up almost unlimited amounts of raw material. The increase in the scale of production means larger and more efficient equipment in giant plants, lower labor costs, greater output, lower prices, and higher profits. Large-scale production augments the accumulation of capital, which in turn reacts upon and augments the scale of production, capital investment, and accumulation.

One result of accumulation and its transformation of industry is the relative decline of older agricultural products as industrial raw materials in favor of newer products, particularly minerals. The change involves, in its economic and political implications, the subjugation

of agriculture by capitalist industry, and the exploitation of agrarian classes and regions by capital.

Another result of accumulation and its transformation of industry is the shift from muscular to mechanical power and a constantly greater dependence upon machines and apparatus. Modern industry is highly mechanized, requiring tremendous masses of equipment and materials. This involves a change in the composition of capital, that is, in the proportional amounts of labor, equipment, and materials used in industry. Small-scale industry was characterized by a low composition of capital, the preponderance of variable capital (wages, labor) over constant capital (equipment, materials). Large scale industry is characterized by a higher composition of capital, the preponderance of constant over variable capital. The use of increasingly larger masses of equipment and materials multiplies the productivity of labor and the output of industry. The higher the composition of capital, the more labor is displaced relatively to the other factors of production. Wages fall and profits rise. But both cause and effect assume antagonistic forms and provoke disturbances of the most serious nature. For the change in the composition of capital underlies all the contradictions of accumulation, and these contradictions create the inescapable instability and limited character of capitalist production and prosperity.

## CHAPTER VII

# Accumulation and the Composition of Capital

CAPITALIST industry is unceasingly driven to force up profits by reducing labor costs and enlarging the scale of production. The resulting increase in constant capital and relative decrease in variable—the higher composition of capital—are most fully apparent in the structure of American industry (the most highly developed expression of capitalism).\*

In American manufactures, wages rose from \$237 million in 1849 to \$2,320 million in 1899, or 866%; raw materials (including auxiliary materials and power) from \$555 million to \$7,343 million, or 1,223%; capital, including the investment in machinery, apparatus, and buildings, from \$533 million to \$9,835 million, or 1,758%. In 1914, capital investment was 154% higher than in 1899, raw materials 118% higher, and wages 103% higher.<sup>1</sup> The capital figures are crude, but they indicate the upward trend more than the rise in wages and raw materials. From 1849 to 1919, the fixed capital per worker rose from \$560 to \$5,000, a ninefold increase compared with only a fourfold increase in the average worker's money (not real) earnings. After seventy years of change in the composition of capital the worker in manufactures set in motion probably seven times as much capital equipment and five times as much raw material. While there was a decrease in the ratio of wages to constant capital and output, there was also a decrease in the ratio of output to fixed capital. This was again the case, naturally, in 1923–29 (Table I): constant capital, particularly the fixed portion, increased more than wages and output.

\* Precisely because it is the most highly developed, American industry offers the fullest confirmation of the analysis Karl Marx made of the laws of capitalist production. It is one of the tasks of this book, using the American statistical material, the most abundant in the world, to make a quantitative, as well as qualitative, demonstration of the Marxist conception of the fundamental aspects of capitalism—and this despite the tendency, on the part of bourgeois economists, to sneer at "Das Kapital" as an "outworn economic text-book." Marx, in fundamental theory and analysis, is more contemporary than contemporary bourgeois economists.

TABLE I

*Changes in the Composition of Capital, Manufactures, 1923-29*

YEAR	Constant Capital		Variable Capital				VALUE	
	FIXED CAPITAL* (millions)	INDEX	RAW MATERIALS† (millions)	INDEX	WAGES (millions)	INDEX	OUTPUT† (millions)	INDEX
1923	\$21,910	100.0	\$13,200	100.0	\$11,009	100.0	\$39,050	100.0
1925	25,457	116.6	13,600	103.0	10,730	97.4	40,400	103.6
1927	26,007	118.7	13,450	101.9	10,849	98.4	41,000	105.1
1929	28,235	128.9	15,450	117.0	11,621	105.7	47,100	120.8

\* Real estate, buildings, and equipment; the fixed capital for 1923 is estimated on the basis of the 1924 figure of \$22,410 million.

† Less duplications.

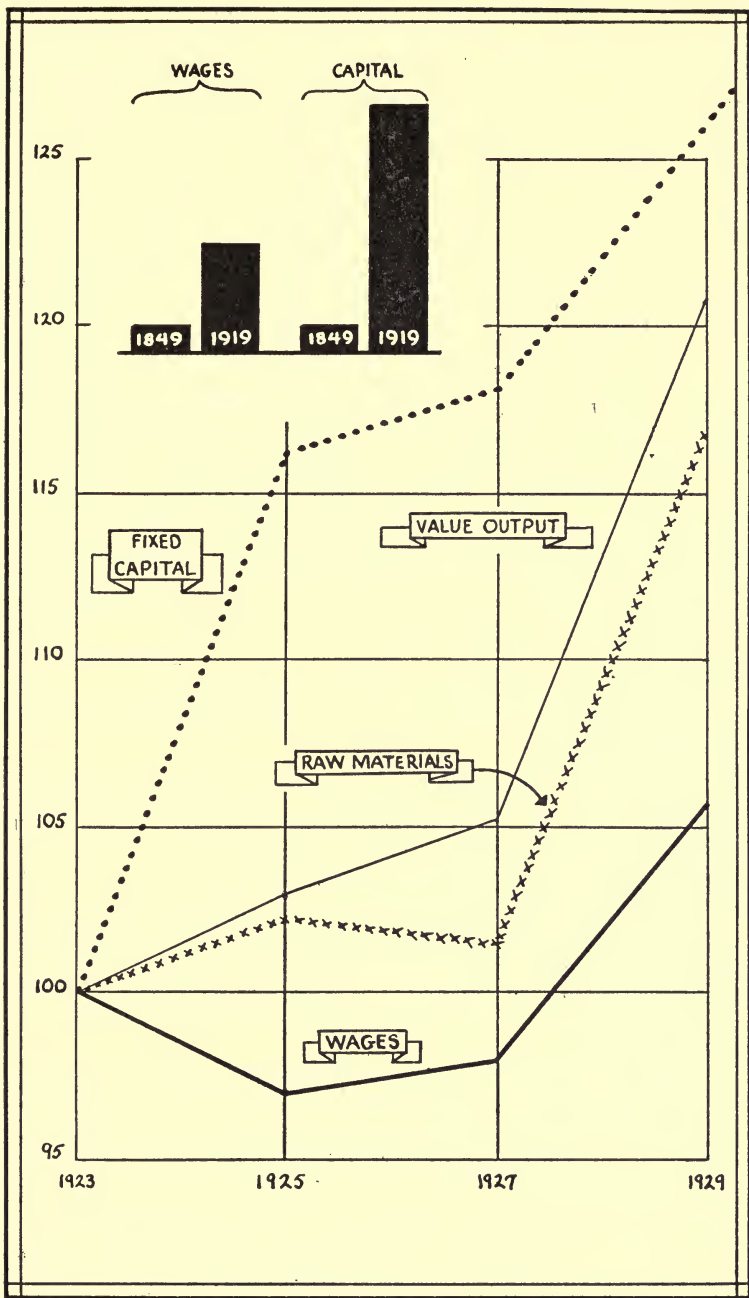
Source: Fixed capital—Bureau of Internal Revenue, *Statistics of Income* for the respective years; wages, materials, and output—Department of Commerce, *Census of Manufactures*, 1929, v. I, p. 15, and *Statistical Abstract of the United States*, 1931, p. 483.

In 1923-29, constant capital in manufactures rose over four times as much as variable capital: 24.4% compared with 5.7%. Fixed capital rose five times as much as wages, 70% more than materials and 40% more than output. This was a considerably greater change in the composition of capital than in 1899-1914, when the increase in fixed capital ranged only up to 40% more than in the other factors. The average worker in 1929, while receiving practically the same wages as in 1923, set in motion nearly one-third more fixed capital and one-sixth more materials and produced one-fifth more output. The proportion of wages to fixed capital fell from 51.4% to 41.2%, of wages to output from 28.2% to 24.5%, and of wages to "value added by manufacturing" from 42.7% to 36%. Wages and labor costs fell, profits rose.\*

Wages *must* decrease as the composition of capital becomes higher: larger capital investment requires larger profits, and more capital is invested in the constant than in the variable form. Wages may fall relatively. They may also fall absolutely (as in 1925 and 1927) if an unusually rapid improvement in technological efficiency is not compensated by a sufficient increase in industrial expansion and employment. As wages are the price of labor power, of the worker's skill and muscle and nerves, the fall in wages involves displacement of

\* Labor costs in 1929 were 9.5% lower than in 1923, overhead costs and profits 10.6% higher. The elements of cost as decimal fractions of value output became: materials .663, overhead costs and profits .189, labor costs .148. Frederick C. Mills, *Economic Tendencies in the United States* (1932), p. 409.





V. CHANGES IN THE COMPOSITION OF CAPITAL.

labor and unemployment. Where displaced workers are absorbed by the expansion of industry the displacement is relative. But it tends to become absolute: in every year except 1929 the number of workers in manufactures was lower than in 1923, and in all years lower than in 1919. Nor were lower total wages and employment in manufactures offset by larger wages and employment in other industries, which are also affected by changes in the composition of capital. In mining, wages fell from \$1,161 million in 1919 to \$1,066 million in 1929, or 8.2%, and workers from 888,355 to 788,357, or 11.3%; installed power, a rough measure of fixed capital, rose 42%, while output rose from \$2,225 million to \$2,392 million, or 2.4%. On the railroads, wages and salaries fell from \$3,004 million in 1923 to \$2,896 million in 1929, or 3.6% (the fall in wages alone was much greater) and employees from 1,857,674 to 1,660,850, or 10.6%; capital investment rose from \$21,372 million to \$25,465 million, or 19.1%, and net operating income from \$974 million to \$1,262 million, or 29.6%.<sup>3</sup> In the oil industry and in electric light and power, capital investment and profits rose more than wages and employment. While there was some increase in the wages of the workers as a whole, it was smaller than the increase in profits and property income in general. It was, moreover, accompanied by the absolute displacement of 1,000,000 workers, the average yearly number of unemployed workers in 1923-29 approaching 2,000,000.

Thus the higher composition of capital is the objective expression of the inner urge of capitalist production to displace labor and the wages of labor. In the epoch of the upswing of capitalism, the displacement was relative; it becomes absolute in the epoch of decline. The most characteristic expression of the decline of capitalism is the misery of an increasing "surplus population" of unemployed and unemployable workers (including professionals), who barely exist on the "rations" of reluctant charity, meager unemployment insurance, or poor relief. . . .

The higher composition of capital means an increase in the productivity of labor. More of the work of production is performed, and more efficiently, by mechanical equipment, which lessens labor and permits the transformation of larger amounts of raw material into goods. The higher composition of capital is, therefore, an expression of economic progress, the basis of potential plenty and leisure for all. But under capitalism it is identified with the urge to displace labor, lower wages, and raise profits. Because of this the higher composition of capital simultaneously and antagonistically:

1. Imposes limitations upon the purchasing power and consumption of the workers. Wages always lag behind profits, and wages always fall relatively to output and profits. This measurably restricts the growth of markets, creates disproportions in the output of means of production and means of consumption, and sets in motion the forces of cyclical crisis and breakdown.

2. Imposes limitations upon the production and realization of surplus value. The decrease of variable capital (wages) in favor of constant capital (equipment and materials) limits the production of surplus value in proportion to the total invested capital; while the increase in the output of goods and the restriction of mass purchasing power and consumption saturate markets and lower prices to unprofitable levels, thereby limiting the realization of surplus value in the form of profits. The *mass* of profits rises, but the *rate* of profit on the total invested capital tends to fall.

Thus the higher composition of capital is the basic objective factor in the contradictions of accumulation and of capitalist production and prosperity.

## The Fall in the Rate of Profit

THE fall in the rate of profit manifests itself as a tendency and not in absolute form. For capitalist production struggles incessantly to prevent the rate from falling and to raise it. Both the falling tendency and the struggle against it condition the most fundamental aspects of capitalist development.

The tendency of the rate of profit to fall is determined by changes in the composition of capital, the increase in the productivity of labor, and the conditions under which surplus value and profit are produced and realized. A fall in the rate of profit may result from causes which do not involve changes in the composition of capital, such as a rise in the prices of raw materials not offset by a general price rise, excessive competition (the old composition being unchanged) forcing prices down to unprofitable levels, or a restriction of markets and sales due to changes in consumer habits and demands. But these are temporary and limited in scope. The primary cause of the tendency of the rate of profit to fall is the change in the composition of capital and the forces thereby set in motion.

Capitalist enterprise continually strives to raise profits by increasing the productivity of labor. This is done by enlarging the scale of production and displacing labor with more efficient equipment working up larger amounts of raw materials, thus lowering the proportion of variable to constant capital. The capitalists, who, in their calculations, convert values into prices of production, *i.e.*, into costs, imagine that constant capital itself produces profit because they include a profit on its consumed portions in figuring costs and selling prices. But as only its own used-up value is incorporated in commodities, constant capital produces no new value and no surplus value; labor, living labor alone produces surplus value, of which profit is the realized form. If the rate and mass of surplus value remain the same after an increase in constant capital, a fall ensues in the rate of profit because the surplus value is now a smaller ratio of a larger total of invested capital, on which the rate of profit is calculated. It can be otherwise only if the elements of constant capital are considerably cheapened; in this case the old or even a higher

rate of profit may be secured. The higher composition of capital, however, increases the rate of surplus value: while the living labor incorporated in a commodity falls, the unpaid portion, representing the surplus value, rises. But this rising tendency of surplus value is accompanied by antagonisms which set in motion its opposite, the tendency of the rate of profit to fall. The rise in surplus value produced by the higher productivity of labor can result in a rising rate of profit only under certain definite conditions: *if* the rise in the value of labor's surplus product is greater than the rise in the value of constant capital, *if* all the new fixed capital is set in motion by labor, *if* prices and profits are not lowered by competition, *if* markets absorb the enlarged output of commodities and permit complete realization of surplus value and profit.\* It is the fact that these conditions are rarely, if ever, present simultaneously which activates the tendency of the rate of profit to fall.

Underlying the falling tendency of the rate of profit is an increase in the productivity of labor and in the scale of production, which result in a larger mass of commodities and profit. But capital investment tends to increase more than output, more than the realization of surplus value and profit. If the rate on the larger mass of profits, calculated on a still larger mass of capital, falls, there follows an accelerated investment of capital to overcome the fall in the rate, by an increase in the mass of profits. Again there are changes in the composition of capital, greater productive capacity and output, aggravating the contradiction between the absolute development of production and the limited conditions of consumption. This contradiction exerts a downward pressure on the rate of profit in two ways:

Prices and profits are lowered by the intensified competition result-

\* "Production of surplus value is but the first act of the capitalist process of production, it merely terminates the act of direct production. . . . Now comes the second act of the process. The entire mass of commodities, the total product, which contains a portion which is to reproduce the constant and variable capital as well as a portion representing surplus value, must be sold. If this is not done, or only partly accomplished, or only at prices which are below the prices of production, the laborer has been none the less exploited, but his exploitation does not realize as much for the capitalist. It may yield no surplus value at all for him, or only realize a portion of the produced surplus value, or it may even mean a partial or complete loss of his capital. . . . Too many commodities are produced to permit of a realization of the value and surplus value contained in them under the conditions of distribution and consumption peculiar to capitalist production." Karl Marx, *Capital*, v. III, pp. 286, 303.



ing from an output of commodities beyond the limited conditions of consumption of existing markets.

An excess capacity of production arises, whose costs are a burden upon realized profits.

Excess capacity is peculiar to capitalist production, which tends to develop the power to produce beyond the power to consume. (This also affects excess capacity in the industries producing capital goods, as in final analysis the demand for these goods depends upon the ability of the industries producing consumption goods to dispose of an increasing output.) It is not a problem in itself, but the concrete expression of the factors underlying the tendency of the rate of profit to fall. An excess capacity of production appears in two forms: in a capacity used to produce goods which saturate markets and depress prices and profits, and in an unused capacity, an idle equipment which is unused because demand is insufficient. The two forms interpenetrate, flow one into the other, are combined in the same enterprise: both tend to lower the rate of profit.

The more intensively, completely, continuously the means of production are used by labor, the greater is the yield of surplus value and profit, assuming that the necessary market conditions exist;\* the yield decreases in proportion to diminishing utilization of the means of production. Labor can produce surplus value only if it sets in motion fixed capital and raw materials, and these can be made to yield profit only if set in motion by labor. If an enterprise operates below its capacity, no surplus value is produced by the labor which might be employed and no profit yielded by the capital incorporated

\* "The development of industry fixes a constantly increasing portion of the capital in a form in which, on the one hand, its value is capable of continual self-expansion, and in which, on the other hand, it loses both use-value and exchange-value whenever it loses contact with living labor. . . . The same instruments of labor, and thus the same fixed capital, may be more effectively used by a prolongation of their daily use and by the greater intensity of employment . . . a more rapid turnover of the fixed capital. . . . The entire capital cannot be employed all at once in production, a portion of the capital is always lying fallow . . . hence the capital active in the production and appropriation of surplus value is curtailed to that extent. The shorter the period of turnover, the smaller is the fallow portion of capital as compared with the whole, and the larger will be the appropriated surplus value. . . . The mass of the produced surplus value is augmented by the reduction of the period of turnover. Any such reduction increases the rate of profit, since this rate expresses the mass of surplus value produced in proportion to the total capital employed." Marx, *Capital*, v. I, p. 431; v. II, p. 409; v. III, p. 85. If a more intensive use of fixed capital increases surplus value and the rate of profit, a lessened intensity of use, an unused capacity, necessarily decreases surplus value and the rate of profit.

in the unused capacity, whose costs eat into the produced and realized surplus value and profits and reduce the rate of profit on the total invested capital.\*

Thus a downward pressure is exerted on the rate of profit by unused capacity, a destructive yet inescapable aspect of capitalist production and expansion. The unused capacity may be relative or absolute, but it becomes continuously larger as variable capital decreases in favor of constant capital, particularly the fixed portion. Another contradiction arises: labor costs are variable, they can be lowered as output falls; the costs of capital equipment are fixed, they must be met regardless of output. The problem is aggravated by some variable costs becoming semi-fixed. Fixed and semi-fixed costs (interest, depreciation, insurance, taxes, management, merchandising costs, some costs of labor and raw material) do not vary or vary only partly with variations in output.† The costs are no problem, are compatible with a rising rate of profit, if production is continuous and up to or near capacity; they become a burden on realized profits as production falls below capacity. For the fixed and semi-fixed costs must be met, whether they are earned or not; but as no surplus value is produced by the unused capacity, the mass and rate of profit are lowered.

The greater the scale of production, and the higher the composition of capital and the productivity of labor, the greater is the pressure of unused capacity on the rate of profit. Operating below capacity in small-scale industry, with its lower composition of capital, is not necessarily fatal because variable labor costs are greater than fixed or semi-fixed costs: as output falls the workers who are fired are not a cost of variable capital and involve no direct loss, while losses on the costs of unused capacity are not great. Operating below capacity in large-scale industry, with its higher composition of capital, is fatal because fixed and semi-fixed costs are greater than the variable costs of labor: as output falls the workers who are fired still involve no direct loss on variable capital, but this is now relatively unimportant in comparison with the great losses on the costs of unused capacity.

\* "The larger the fixed capital and the slower its circulation, the larger will be the share of capital lying immobile, and the smaller will be the capitalist's rate of profit." I. Lapidus and K. Ostrovityanov, *An Outline of Political Economy* (1930), p. 142.

† "Taxes, fire insurance, wages of various permanent employees, depreciation of machinery and various other expenses of a factory run on just the same, whether the working time is long or short. To the extent that production decreases, these expenses rise as compared to the profit." Marx, *Capital*, v. III, p. 94.

In small-scale industry, where low fixed and semi-fixed costs absorb a small part of the output, 25% operation might mean breaking even and 50% operation mean substantial profits. In large-scale industry, where high fixed and semi-fixed costs absorb a large part of the output, 25% operation might mean disastrous losses, with operation of 50% or more necessary to break even. But after the point at which fixed and semi-fixed costs are earned, the rate of profit in large-scale industry tends to rise sharply because of its higher scale of operations and the productivity of its labor.

Because of the conditions identified with unused capacity, the larger *mass* of profits "earned" in large-scale industry may coincide with a fall in the *rate* of profit. This perpetually tempts an enterprise to use all of its capacity. But operating 100% of capacity does not necessarily avert a fall in the rate of profit. For where markets are limited, the use of excess capacity may mean an output of commodities which the markets cannot absorb. Competition is sharpened. Prices may drop to unprofitable levels. Or if they do not, prices may become indirectly unprofitable through an increase in advertising and other merchandising costs. In either case the rate of profit falls. As the upward movement of prosperity reaches its climax it creates more intensive efforts to raise the productivity of labor, which augments excess capacity, and more use of excess capacity to capture markets, in order to overcome the tendency of the rate of profit to fall. But markets are limited, they shrink relatively, as capitalism develops the forces of production more than the forces of consumption. Efforts to raise the rate of profit may succeed, but only temporarily, because the rise augments excess capacity and competition, and hastens overproduction, cyclical breakdown, and a disastrous fall in the rate of profit. Thus the rate of profit falls because of an excess capacity used under market conditions which do not permit complete realization of surplus value and profit.

That the rate of profit tends to fall is an observable and acknowledged fact.\* An indirect proof is the constantly larger capital investment necessary to produce a unit of product. In American manu-

\* Why, then, do small concerns fail more easily in depressions, when unused capacity mounts? Because the larger concerns have more control over markets and prices, possess larger financial resources, including surplus, and are favored by the banks. They use, moreover, the opportunity of depression to drive their smaller competitors out of business. And in many cases the small concern, if it is small enough and if most of its capital is variable, is only an apparent casualty: it closes down or retires completely, but resumes business when prosperity returns.

factures, fixed capital rose 1,758% from 1849 to 1889, output only 1,170%.<sup>1</sup> The ratio of output to fixed capital was 2 to 1 in 1889 and 1.4 in 1929; on a different statistical basis the ratio was 1.8 in 1923 and 1.6 in 1929, a fall of 11% in six years. The direct proof is the rate of profit itself (Table II). In 1924-29, the mass of profits rose, with two interruptions during minor cyclical depressions, but the

TABLE II

*The Rate of Profit, Manufactures, 1923-31*

YEAR	NET PROFITS* (millions)	FIXED CAPITAL† (millions)	RATE ON		RATE OF PROFIT	INDEX,	RATE OF
			FIXED CAPITAL	TOTAL CAPITAL‡ (millions)		RATE OF PROFIT	SURPLUS VALUE
1923	\$3,174	\$21,910	14.5	\$34,491	9.2	100.0	100.0
1924	2,418	22,410	10.7	36,491	6.1	66.3	—
1925	3,245	25,457	12.7	42,366	7.7	83.7	111.3
1926	3,213	26,618	12.1	45,273	7.1	77.2	—
1927	2,662	26,007	10.2	48,049	5.5	59.8	112.5
1928	3,461	27,025	12.8	50,017	6.9	75.0	—
1929	3,951	28,235	13.9	52,694	7.5	81.5	127.1
1930	878	28,987	3.0	52,121	1.7	18.5	—
1931	Deficit‡	27,000	Minus	48,500	Minus	Minus	116.1

\* Net profits—profits (exclusive of intercorporate dividends and taxes) of corporations reporting net income less the deficits of corporations reporting no net income. The profits of corporations which reported net income were \$3,872 million in 1923 and \$4,760 million in 1929.

† Fixed capital—real estate, buildings, and equipment; total capital—common and preferred stock and surplus. Capital for 1923 and 1931 is estimated.

‡ In 1931 one group of corporations reported net income of \$1,169 million, the other deficit of \$1,984 million, making for corporations as a whole a deficit of \$815 million.

The rate of profit is somewhat distorted by dependence of the statistics on corporate methods of accounting, which tend to underestimate profits and "mark up" capital values, and by the inclusion in surplus of outside stock ownership, whose income is not included in profits. The distortions, however, do not affect the movement in the rate of profit.

Source: net profits and capital—Bureau of Internal Revenue, *Statistics of Income* for the respective years; index of rate of surplus value—see Table IV, chapter V.

rate of profit fell. In every year the rate on both fixed and total capital was below 1923; and on total capital the rate of profit was below 1925 in every subsequent year. The mass of profits rose in 1928-29 (a rise interlocked with the approaching cyclical breakdown), but even in these peak years the rate on fixed capital was below 1923, and the rate of profit (total capital) was below both



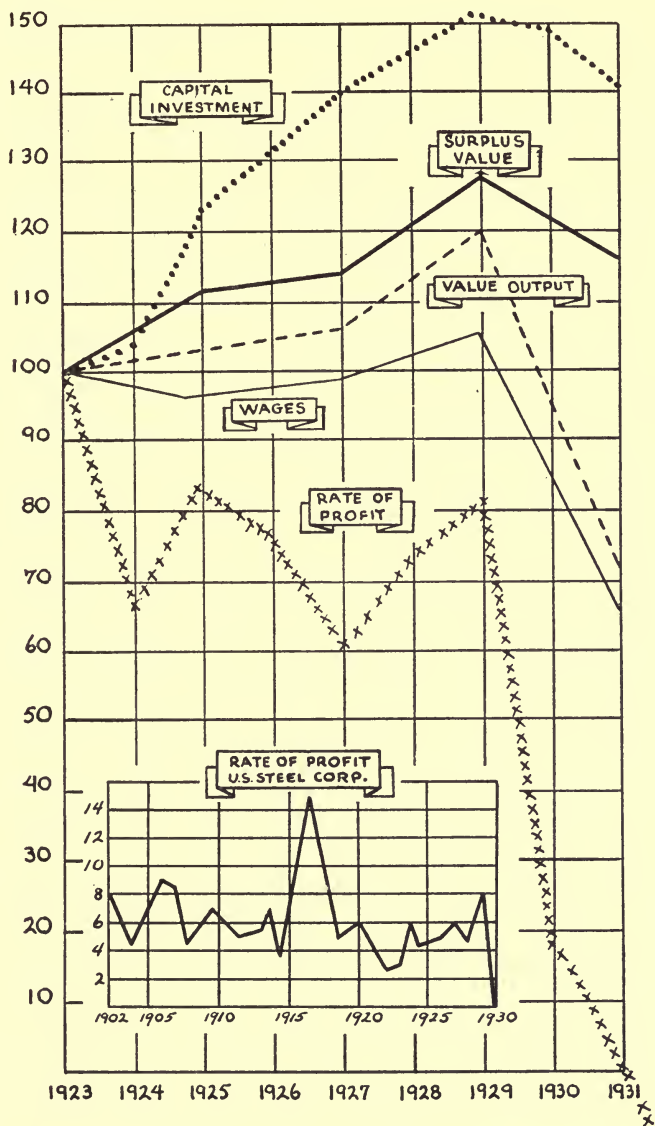
1923 and 1925. Clearly capitalist production is a perpetual struggle against a falling rate of profit. The rate falls and rises and falls in prosperity. It falls precipitously in minor depression: a fall of 33.7% in 1924 over 1923 and of 22.5% in 1927 over 1926. And it falls disastrously in major depression: a fall of 77.3% in 1930 over 1929 and of 81.5% over 1923; a fall below zero in 1931. (In the first quarter of 1933, 205 large corporations with a "net worth" of \$7,443 million had a deficit of \$14,831,000; in the second quarter, marked by a speculative revival of industry, they had net profits of \$86,878,000,<sup>2</sup> or a rate of profit of 1.1%.)<sup>2</sup> Exclude depressions, minor and major, and the tendency is still definitely downward. Average yearly profits rose from \$3,209 million in 1923 and 1925 to \$3,542 million in 1926, 1928 and 1929, but the rate on fixed capital fell from 13.5 to 12.9 and the rate of profit (total capital) from 8.3 to 7.2—a fall of 4.4% and 13.2% respectively. *While the rate of profit was falling, the rate of surplus value rose uninterruptedly and was 27.1% higher in 1929 than in 1923. The rate of profit in 1931 fell below zero, but the rate of surplus value fell only 8.6% and was still 16.1% higher than in 1923.* Capital investment increased more than the realization of surplus value and profit, hence the fall in the rate of profit, which forced the investment of more capital (including profits retained as surplus) in an effort to overcome the fall.\*

As the law of the falling rate of profit is not absolute, but a tendency, it may be checked temporarily: the rate may even rise. It is significant, accordingly, that the rate of profit fell in 1924–29.<sup>†</sup> It fell in

\* The ratio of net income to capital investment fell from a yearly average of 16.2 in 1909–13 to 11.3 in 1923–29. It was 14.1 in 1919, 5.8 in the depression year 1921, 10.8 in 1922, 11.9 in 1923, and 11.2 in 1929. The ratio of net income to gross sales was 15.2 in 1909, 11.5 in 1919, and 10.5 in 1929. Robert R. Doane, *The Measurement of American Wealth* (1933), p. 149. The methods of calculation are different from those in Table II, but the same thing is proven—the tendency of the rate of profit to fall.

† The fall in the general rate of profit is not merely a result of the deficits of corporations making no profits, or of the small earnings or losses of smaller enterprises. These are important factors, and they are intertwined with all the contradictory forces set in motion by changes in the composition of capital. Moreover, capitalist production must be considered as a whole. The fall in the rate affects enterprises with enviable records of earnings. Thus the rate of profit on the invested capital of the United States Steel Corporation fell from approximately 8% in 1902 to 4.5% in 1927–29 (the rate rose sharply during the war years of 1916–17). R. Weidenhammer, "Causes and Repercussions of Faulty Investment of Corporate Savings," *American Economic Review*, March, 1933, pp. 39–40. United States Steel has paid constantly larger dividends, but this has required a still larger reinvestment of earnings. The corporation's surplus rose from \$25,000,000 in 1902 to \$700,000,000 in 1929, while its assets increased more than threefold.





VI. THE FALL IN THE RATE OF PROFIT.

spite of the unusual upsurge of prosperity; of the great expansion in old and new industries, which yielded exceptional profits; of the sharp rise in the productivity of labor and in the rate of surplus value; of the fall in the prices of capital goods and raw materials, and its tendency to increase profits; of relatively constant prices and decreasing costs; of the export of capital, which "immobilized" billions of surplus capital and eased the downward pressure on the rate of profit.

Underlying the general rate of profit are the rates in separate industries and enterprises. While the fall in the general rate of profit may be checked or it may even rise, some of the underlying rates always fall. In separate industries and enterprises the rate of profit may rise, fall, stand still, or disappear. In 1923-27, among 381 industrial corporations and 129 public utilities, the average yearly increase in profits ranged from 0.4% in iron and steel to 22.5% in automobiles, and decreases ranged from 1% in automobile accessories to 10.5% in clothing and textiles and 48.6% in coal mining; in nine groups the average yearly increase in profits exceeded 10%, in four groups it was below 10%, and in six groups the decrease in profits produced deficits.<sup>3</sup> This uneven working of the falling tendency of the rate of profit is one of its most important manifestations. For it creates and aggravates disproportions and disturbances even if the general rate is rising. A higher rate in one group of enterprises may be the result of losses in another group. Competition is intensified. Capitalists redouble their efforts to plunder one another. Exploitation of the workers becomes greater. Capital flows into industries with a higher rate of profit, where it increases excess capacity. Speculation is encouraged. The instability of capitalist production and prosperity becomes more acute. As some of the underlying rates of profit are always falling, the tendency of the rate of profit to fall always exerts its pressure; and always, consequently, there are efforts to overcome the tendency, particularly as a small fall in the general rate may coincide with a large fall in some of the underlying rates. If a fall in the rate of profit is accompanied by a rise in the mass of profits, it neither lessens the lag of wages behind profits nor overcomes the contradictions of accumulation: the fall is itself one of the contradictions. (The fall in the rate of profit is independent of the fictitious fall often produced by the over capitalization of monopolist combinations, by "marking up" capital values to hide profits, beat down wages, or cheat investors, and thus swell the incomes of predatory financial capitalists. Where a fall in the rate of profit is pro-

duced by overcapitalization, the results are not, however, fictitious, for it forces management to strive for higher profits, and thereby intensifies competition and the drive toward overproduction.)

The higher composition of capital and the tendency of the rate of profit to fall involve the general problem of "overhead costs"—those "costs of production" which, whether necessary or unnecessary, do not fall correspondingly with a fall in output. As industry becomes increasingly large-scale, all sorts of unforeseen costs arise and eat into profits; many of the costs puzzle the capitalist and are described as "hidden." (Among the "hidden costs" recently discovered are older employees over forty who are ruthlessly thrown upon the scrap-heap.) There are limits to an increasing scale of profitable operation, technical limits in productive efficiency and economic limits in markets; although the limits are flexible they often result in efficiency losses and in a lower rate of profit among the larger and most heavily capitalized enterprises. Displacement of labor, particularly by automatic machinery and apparatus, produces an increase in the technical, managerial, and supervisory staffs, whose functions are being increasingly mechanized; their costs are not as variable as the costs of labor. The costs of merchandising and advertising increase enormously under pressure of excess capacity, relatively limited markets, and aggravated competition. The necessity of efficient and continuous production, because of the burden of fixed and semi-fixed costs, results in growing expenditures on management engineering and personnel and "welfare" work, including espionage, to insure efficiency, crush unionism, and prevent strikes—particularly to prevent strikes which might interfere with continuous operation. Costs formerly almost wholly variable now develop many aspects of fixed costs, an antagonistic result of the efforts to lower the variable costs of labor. An increasingly larger minimum labor force is required where a plant operates below capacity or shuts down. Losses accumulate on stocks of raw materials when output or prices fall. The rapidity of technical change quickens the rate of obsolescence of mechanical equipment, resulting in large losses and the necessity of larger depreciation allowances. (Scrapping "obsolescent" equipment is often sheer waste, justified competitively, not socially.) Debts and interest charges pile up, as a result of the pressure for more capital to enlarge production and check the tendency of the rate of profit to fall, introducing rigid and unwieldy elements in the financial structure, which intensify the instability of prosperity and prolong depression. All of these over-

head costs are involved, in one aspect or another, with excess capacity,\* the result of changes in the composition of capital and the increasing productivity of labor—the devils who spoil the best of all possible worlds by exerting downward pressure on the rate of profit.

These problems arise out of contradictions in large-scale production. The economy of large-scale production involves increasing the productivity of labor, and reducing the amount of paid labor (wages) incorporated in a commodity. Thus, while the prices of commodities fall, more surplus value and profit may be realized on the production and sale of a larger mass of cheapened commodities. An enterprise using more productive methods, which are its exclusive possession, can sell below the market price but above its prices, or costs, of production, and thus “earn” a higher rate of profit. But the more productive methods cease being an exclusive possession, or still more productive methods are introduced. Competition beats down prices; excess capacity develops or becomes greater. The rate of profit begins to fall.

Essentially the contradiction is this: The economy of large-scale production depends upon measurably full operation and profitable sale of the output. But capitalist industry is incapable of continuous and planned utilization of all the available means of production, because it is incapable of commensurately developing the conditions of consumption. Industry is tormented by unused capacity and forced to operate below capacity. In large-scale industry the margin of profit rises greatly beyond a certain point, but profits fall greatly when output falls below that point. Where formerly small changes in output meant small changes in profits, small changes in output now mean large changes in profits, and large changes in output mean disastrous losses which must be met out of reserves and working capital, because of the high proportion of fixed and semi-fixed costs which do not fall or fall only slightly as output falls, and if the capacity of an enterprise is fully utilized, it may result in so saturating markets that prices fall and cancel (in terms of profit) the economy of large-scale production.

Aside from depression, there is always an excess capacity in industry which tends to offset gains from the increasing productivity of labor and the economy of large-scale production. In the peak years 1928–29, American industry was capable of producing at least 20% more goods, many industries from 25% to 75% more. This excess capacity, vary-

\* “Overhead cost is practically coextensive with unused capacity.” J. M. Clark, *Studies in the Economics of Overhead Costs* (1923), p. 483.

ing in space and time but always tending to increase, is a result of the fundamental contradiction: capitalist production tends toward an absolute exploitation of labor, an absolute production of surplus value and profit, but their realization is limited by limitation of consumption among the mass of the people. Wages lag behind profits, investment income increases more than consumption income, production and consumption are not balanced, all because of the institutional greed for accumulation. In one of its aspects, excess capacity, which is a portion of capitalized surplus value, represents possible consumption of which the workers have been deprived.

Excess capacity and its downward pressure on the rate of profit increasingly torment large-scale industry. Why, then, large-scale industry? Being itself capitalist production, small-scale industry also was afflicted by excess capacity and the falling tendency of the rate of profit, although not in the severer forms of to-day. The struggle against the fall led to a higher composition of capital. Often, not always, small-scale industry, particularly in the luxury trades, may still yield a higher rate of profit. But its field is limited, as manufacture of the characteristic products of modern industry requires large amounts of machinery and apparatus, of fixed capital, and, consequently, of raw materials. Competition, moreover, forces a lowering of costs, which is accomplished by raising the productivity of labor and enlarging the scale of production. By increasing its constant capital, a small-scale enterprise secures *at the start* competitive advantages and "earns" a rising rate of profit. This dooms small-scale industry, which is destroyed by the "free" competition it depends upon. Other enterprises enlarge the scale of their operations and change the composition of their capitals, and eventually competition, restricted markets, and excess capacity reverse the rise in the rate of profit. The tendency of the rate of profit to fall is thus strengthened, and is never, save under certain rare conditions and then only temporarily, overcome.



## Multiplying Contradictions and Capitalist Decline

**O**PPOSING forces are always at work to check the tendency of the rate of profit to fall: capitalist production is an unceasing struggle against the tendency. The struggle and the forces it sets in motion are determining factors in capitalist expansion, cyclical breakdown, and decline.

Capitalist production strives to check the fall in the rate of profit by raising the productivity of labor. This may take the form of greater intensity of labor, and develops some of the most barbarous aspects of capitalist exploitation. It includes speeding-up the workers by making them attend more machines ("stretch-out" system), increasing the speed of machines, or "standardizing" work motions on a basis which strains human resources, an important element of "scientific management." A greater intensity of labor tends to raise the rate of profit by increasing surplus value without an increase in the value of fixed capital. This may be achieved also by depressing wages below the value of labor power—so that workers are able to buy less of the customary necessities of life—either through direct reduction of wages or rising prices. But all these efforts mean a decrease in relative wages, a greater lag of wages behind profits, and tends to upset the balance between production and consumption. Similar results follow a rise in the productivity of labor through the use of more efficient equipment. For this leads to an increase of constant capital, particularly the fixed portion, more excess capacity, and a stronger tendency of the rate of profit to fall. The efforts to overcome contradictions aggravate them and the forces of cyclical breakdown.

Increasing the productivity of labor is an aspect of rationalization, whose primary aim is to check the fall in the rate of profit. Rationalization means the more economical, intensive, and scientific utilization of constant capital. It involves more efficient use of existing equipment; development of new processes, particularly chemical, which may increase productivity with little if any new expenditure on fixed capital; introduction of more efficient equipment at the old or lower

prices, accomplished on a large scale by the electrification of industry; and the more economical use of raw materials, including the utilization of their wastes in the form of by-products. But the result is an eventual aggravation of contradictions. The output of by-products increases the pressure on the markets of commodities with which they compete. Pressure on all markets is increased by the general rise in the productivity of labor, tending toward overproduction and unprofitable prices. In the long run all these efforts to enlarge the mass of profits and check the fall in the rate increase the proportion of constant to variable capital, and the rate of profit begins to fall again. Moreover, the more intense and economical use of constant capital depends upon measurably complete and continuous operation, and this is thwarted by an excess capacity become all the greater because of rationalization.

Destruction of capital and depreciation of capital values constitute another check upon the fall in the rate of profit. Bankruptcy, by destroying capital and moderating competition, eliminates a factor dragging down the rate of profit and tends to raise the rate on the surviving capitals; reorganization of an enterprise, by scaling down capital values (and the claims of investors), raises the rate of profit. The process of destruction and depreciation of capital proceeds most drastically in depressions, developing the conditions of revival and of a higher rate of profit. This check upon the falling rate of profit means serious losses to individual capitals, which the capitalists strive to unload upon each other and primarily upon small investors. But the losses are a condition of the accumulation of capital and its concentration, and of the prevention of a disastrous fall in the rate of profit. Social waste on a large scale is involved. Waste is one of the necessary conditions of capitalist production, prosperity, and accumulation—waste that, antagonistically, is accompanied by its scientific elimination in production itself.

Among the most important means of checking the tendency of the rate of profit to fall is cheapening the value of constant capital, of equipment and raw materials, whose quantity and productivity tend to increase more than their price.

The industries producing machinery and apparatus continuously increase the efficiency and decrease the price of their goods, usually more than the average in capitalist production as a whole. This was particularly marked in 1922–29 because of the very rapid progress in technology: the price of equipment moved downward while its efficiency rose substantially. But while cheapening the elements of fixed

capital may check the fall in the rate of profit of industries producing consumption goods, it may result in a lower rate of profit in the industries producing capital goods. Moreover, this check of the fall in the rate of profit involves, in terms of values, a relatively lower output of capital goods, the major sustaining force in prosperity, and eventually aggravates the problems of excess capacity and overproduction.

Lower prices of raw materials contributed greatly to the profits of industrial capital in 1923-29. But this means of checking the fall in the rate of profit develops some of the most serious contradictions and antagonisms of capitalist production. Prices of raw materials are cheapened by more efficient production and an increase in supply, including the use of "scrap" and development of synthetic substitutes. There may ensue a fall in the rate of profit of raw material industries. Synthetic substitutes intensify competitive pressure on markets. The pressure is twofold where a substitute is both raw material and finished product: rayon seriously affected the prices and profits of the older textiles, raw and finished. Overproduction and disastrous price declines are stimulated, even among raw materials whose output and prices are under control of agreements or monopolist combinations, strengthening the tendency of the rate of profit to fall and the forces of cyclical breakdown.

Cheapening the prices of raw materials is, moreover, identified with the exploitation, by highly developed capitalist nations, of colonial and other agrarian peoples, who are forced to maintain an unbalanced economy and are ruined by disastrous price declines. This is in general an expression of the capitalist exploitation and the economic decline of agriculture; for it is economically and politically dependent upon capitalist production and supplies nearly half of industry's raw materials. Capitalist production extorts ruinous profits from agriculture in several ways: opening up new agricultural regions, as in the United States in 1865-90 or in the Argentine, yields profits on the construction of railroads and on the subsequent traffic; increasing the efficiency of agriculture yields profits on the sales of machinery and implements; and there are direct profits on cheaper raw materials and indirect profits on the cheaper foodstuffs which increase real wages. Increasing the supply and decreasing the price of agricultural raw materials is profitable to capitalist industry but tends to ruin the farmers. As long as American agriculture was expanding, in area and sales, and farmers might capitalize prospective earnings, capitalist exploitation was partly offset by increasingly larger markets and higher

land values. Now, however, agriculture is doomed to permanent crisis and decay by the impossibility of new expansion, declining markets, depressed land values, continued capitalist exploitation, and the accumulated burdens of previous exploitation. (Agriculture is afflicted also by the large fixed costs of investment in land and equipment, among whose burdens are a fall in the rate of profit and a rise in mortgage interest and tenancy. Agricultural equipment is costly and not used most economically on small farms; while it may at first increase the rate of profit, more efficient equipment tends to lower prices and profits when it comes into general use; because of fixed costs and competition there is a drive to produce and sell regardless of price, some income being better than none. Farmers, particularly in the epoch of capitalist decline, are inexorably transformed into peasants.) The exploitation of agriculture simultaneously weakens capitalism, however, by arousing class and political antagonisms, national and international, and by creating the objective basis for the socialization of agriculture and its union with socialist industry.

The most important means of checking a fall in the rate of profit is to increase the mass of profits faster than the rate tends to fall. This may be done by trickery, the seizure of extra profits wherever possible and the plunder of capitalist by capitalist;\* but essentially an increase in the mass of profits involves more fixed capital (and materials), larger output, and a larger share of the market: an enlargement of the scale of production. In enlarging capacity, however, an enterprise is seldom free to adjust the technical and the economic factors. The expansion program and the conditions of the market may require an increase of 25% in capacity, but technical requirements may impose an increase of 50% or 100%. The new equipment may be justified from the technical standpoint of efficiency and unjustified from the economic standpoint of realizing on *all* the output, of sales and profits. On the other hand, an increase in consumer demand usually results in new capacity much greater than the new demand. Thus, enlarging the scale of production tends to increase excess capacity; this, as the

\* "The rate of profit within the process of production itself does not depend merely on the surplus value, but also on many other circumstances: on the purchase prices of the means of production, on methods more productive than the average, on economies in constant capital, etc. And aside from the price of production, it depends on special constellations of the market, and in every business transaction on the greater or lesser smartness and thrift of the individual capitalists, whether, and to what extent, a man will buy or sell above or below the price of production and thus appropriate in the process of circulation a greater or smaller portion of the total surplus value." Marx, *Capital*, v. III, p. 439.



variable costs of labor decrease in favor of the fixed and semi-fixed costs of constant capital, may result simultaneously in a rise in the mass of profits and only a temporary, if any, check in the falling rate of profit. Moreover, the tendency toward an absolute increase in the scale of production, regardless of market conditions and the proportional relations of one industry to another, conditions the whole movement of recurrent cyclical crisis and breakdown.

Monopoly arises out of changes in the composition of capital and their results. Monopolist combinations are only partly a result of the technical aspects of the enlarged scale of production, they are also a result of the desire to seize any available profits and control output, markets, and prices to increase profits. Vertical combinations spread upward and downward to secure profits in the production of raw materials (and assure a steady supply) and profits in various stages of manufacture up to the final product. Horizontal combinations spread outward to control the output and markets of a particular product, and secure more profits by manufacture of allied products and general diversification of output. Some combinations may do both. These efforts to increase the mass of profits include combinations striving to secure a higher rate of profit in one activity to offset a falling rate in another activity. The process, which leads to monopoly, results in intensified competition because of larger output, the increase in the scale of production, and the persistent torments of fixed and semi-fixed costs and excess capacity.

Under the conditions of large-scale production, competition is not necessarily accompanied by a decrease in production or shutdown if prices fall or by the migration of capital to a more profitable industry if profits are low. That possibility was always more theory than reality: it was severely restricted by fixed capital, habit, and lack of knowledge of a new industry. It was, nevertheless, easier than to-day to decrease production or shut down or migrate to a new industry because of the large proportion of easily transferable variable capital. This becomes increasingly difficult in large-scale industry because of the greater investment in fixed capital and the greater specialization of machinery and output. To-day, large-scale enterprises, in manufactures, mining, petroleum, keep on producing regardless of unfavorable market conditions: to decrease production or shut down usually means heavier losses than selling below the price of production, means a disastrous depreciation of capital. Competition is intensified. Intensified competition, unprofitable prices, and large losses no longer necessarily



result in decreased production. This aggravates the contradictions driving toward overproduction and cyclical breakdown.

Efforts to create monopoly are invigorated. Monopolist combinations succeed (an indication of capitalist decline) mainly by limiting output and raising prices, by control of markets and prices more than by gains in productive efficiency, and frequently in spite of real losses in efficiency. These combinations seize some of the profits of trade by extorting monopoly prices or by opening their own retail outlets, and they seize some of the profits of "independent" small producers by extorting higher prices for materials or by forcing them to accept low prices for parts of a product which they manufacture. Thus, monopolist combinations may check a fall in their rate of profit by imposing lower rates upon other groups of capitalists. But monopoly is rarely complete or enduring. Monopolist combinations or controls break down. New forms of monopolist competition arise. Monopolist combinations may clash with each other over prices of raw materials or by invading each other's markets. Independents, using the newest and most efficient equipment and much more likely to operate at 100% of capacity, may earn a higher rate of profit than the larger companies—as was the case in the steel industry in 1923–29. If monopolist combinations succeed in suppressing competition in their own fields, competition in other fields is aggravated. This may result either from the greater pressure of capital seeking investment or from monopolist combinations invading non-monopolist markets to secure a larger "slice" of the consumer's dollar. The "organization" of capitalist production provokes new disorganization. And in spite of all its efforts, monopoly capitalism is still tormented by the tendency of the rate of profit to fall.

The increasingly higher composition of capital, the absolute development of production and the relative development of consumption, the fall in the rate of profit, and the contradictions of accumulation in general are inseparably bound up with the development of the world market, the emergence of imperialism, and the international extension of the inner antagonisms of capitalist production.

Enlarging the scale of production makes more imperative the demand for foreign markets to supply raw materials and absorb finished manufactures.\* Foreign trade tends to increase surplus value and its

\* American imports of raw materials rose from a yearly average of \$91,000,000 in 1876–80 to \$1,484 million in 1926–30, exports of finished manufactures from \$98,000,000 to \$2,126 million. Imports of raw materials rose three times as much as exports; exports of finished manufactures rose four times as much as imports. Department of Commerce, *Statistical Abstract*, 1931, pp. 494–95. Foreign trade also supplies raw materials otherwise unavailable or nearing exhaustion.

realization and check the fall in the rate of profit by providing cheaper raw materials and foodstuffs and by reducing excess capacity through selling abroad goods which are unabsorbable in the domestic markets.

The efforts of monopolist combinations to increase the mass of profits and the rate result in their operations becoming international, particularly in economically undeveloped regions. They attempt to monopolize sources of raw materials and markets for finished manufactures, both capital goods and consumption goods. Frequently monopolist combinations establish branch plants where cheap raw materials and cheaper labor yield higher profits.

The international operations of monopolist combinations require an export of capital: nearly one-half of American capital in foreign countries consists of direct investments in branch plants, natural resources, communications, and distribution. This direct export of capital is augmented by the export of capital in the form of loans. In spite of the great demand for capital in the highly industrial nations, strengthened by changes in the composition of capital, there is always a surplus capital seeking investment anywhere, anyhow. The export of this surplus capital permits it to "earn" a higher rate of profit and eases the downward pressure on the rate of profit of capital invested in domestic industry.

In the epoch of monopoly capitalism foreign trade becomes entangled with imperialism: the export of capital, the international operations of monopolist combinations, the struggle to control economically backward regions capable of supplying raw materials and absorbing surplus goods and capital. But imperialism, an endeavor to escape the contradictions of accumulation and capitalist decline, creates new contradictions. The export of capital tends to become an export of interest paid on previously exported capital, which does not involve the export of goods; the check in the fall of the rate of profit is only temporary, as imperialism develops its own downward pressure on the rate because of surplus capital, intensified competition, and the development of large-scale industry on a world basis; the industrialization of economically backward regions and the constantly greater rivalry of imperialist nations weakens the economic base of imperialism and strengthens capitalist decline. Imperialist antagonisms become more violent, and explode into war and the threat of new wars, while exploited colonial and semi-colonial peoples rise in revolt against imperialism.

If the rate of profit falls it sets in motion all the contradictory and

antagonistic efforts to check the fall. If the fall is checked or if the general rate rises there ensues an accelerated accumulation of capital and creation of more surplus capital: the situation becomes worse. Surplus capital desperately seeks profitable investment, forcing down the rate of profit. It flows into industry, producing more excess capacity; invades the domains of monopoly with old, new, or substitute products, producing more excess capacity; sharpens competition, inflames the passions of speculation, and strengthens the material and ideological bases of imperialism. The result is an intensification of economic disproportions, an increase in the instability of capitalist production, and the aggravation of cyclical breakdown and depression.

Capitalist production is held tightly, inexorably, as in a vise, in the contradictions of accumulation. What J. M. Clark, a liberal economist, says of overhead costs is true of all the contradictions of accumulation, of which overhead costs are an aspect:

"They [overhead costs] make regular operation peculiarly desirable and peculiarly profitable, so that business feels a definite loss whenever output falls below normal capacity, and yet it is largely due to this very fact of large fixed capital that business breeds calamities for itself, out of the laws of its own being. . . . There is something about the commercial-industrial system which bewitches business so that it does just the thing it is trying to avoid, and is held back from doing just the thing it yearns to do—maintain steady operation. . . . We may end our study with a curious wonder at the intricacies of the financial-economic machinery which man has built. Man did not design them; they are rather the unintended by-products of the inventions which he did design to serve his supposed needs. These unintended by-products he does not even understand. They appear with all the force of living things with purposes foreign to those of mankind, because they act in ways which man does not understand and did not plan. No man has yet comprehended them completely. Yet we do know enough to offer some prospect of controlling them, though we must well-nigh remake ourselves and our industrial organization in the process. And so we may look forward, not without hope, to the task of taming the New Leviathan. The stakes are heavy, for if we do not tame him, he may devour us."<sup>1</sup>

The monster *must* "devour us." For in its efforts to ease the burden of overhead costs and excess capacity, to avert a fall in the rate of profit, capitalist production lowers wages, multiplies unemployment, engenders crises and depressions, and throws the world into the bloody struggles of imperialism. And the monster *must* "devour us" even

under the institutional arrangements of state capitalism urged by the liberal economists. How does Clark propose to "tame" the monster? By means of the "co-operation" of business "for certain purposes while competing for other purposes"; of a price and wage policy intended to "increase output" and "minimize" unemployment (which is contradictory); of the "partnership" of capital, labor, and the consumers; of national planning. These suggestions, made in 1924, are now part of the "philosophy" of Niraism: and they are not working. Nor are they working in the European nations where state capitalism is more highly developed. While Clark, whose study is original, comprehensive, and suggestive, measurably recognizes the determining relations of production, he overemphasizes the relations of exchange. This overemphasis, which accepts capitalist production as eternal, necessarily leads to proposals of superficial and unworkable reforms in the realm of exchange. It is with exchange that state capitalism tinkers, for it cannot tinker with the foundations of production. But the problem is one of the underlying antagonisms of capitalist production: the exploitation of labor, the composition of capital, the drive to beat down wages in favor of profits, the tendency to develop the forces of production beyond the forces of consumption, and the resulting excess capacity and "unearned" overhead costs. It is a problem of the contradictions of accumulation. The disastrous results of the contradictions and antagonisms appear in the realm of exchange, but they originate in the realm of production. It is, moreover, a problem of the social relations of capitalist production, of their fundamental exploiting character. For, under socialism, the higher composition of capital would mean more output or leisure or both; and there could be no excess capacity because the aim of production becomes social consumption and not private profit. There is no excess capacity in the Soviet Union: no unemployment, no overproduction, no cyclical crises and breakdowns. . . .

The monster of capitalist accumulation cannot be tamed: it is the law of his being to devour not only "us" but capitalism itself. For the contradictions of accumulation are always undermining capitalism, preparing its decline. But the undermining is relative in the epoch of the upswing of capitalism: the contradictions are solved dialectically, by the movement of crisis, depression, and recovery, while the long-time factors of expansion permit of accumulation on an enlarged scale. The mechanization of old and the development of new industries, the exploitation of the world's economically backward regions (railways, public works and other construction, natural resources,



new markets), particularly important in the United States because of its own continental areas and resources—all these long-time factors of expansion provided abundant demand for capital goods, the creation and absorption of new capital. There was an ebb and flow, crises and breakdowns and destruction of capital, but the long-time factors of expansion provided the conditions for enlarged accumulation, for an accelerated production and realization of surplus value. When expansion is exhausted or approaching exhaustion, and the decline of capitalism becomes the dominating fact of economics and politics, the contradictions of accumulation begin to undermine capitalism in an absolute sense because of the limitations imposed upon the production of capital goods, upon the creation and absorption of new capital.

The prosperity of 1923–29 marked the practical exhaustion of the inner long-time factors of expansion, which now depends upon the dangerous expedients of imperialism and its exploitation of international long-time factors of expansion. That upsurge of prosperity *was* the “Golden Age” of American capitalism precisely because it can never appear again: golden ages are always in the past. The unusually great accumulation of capital in 1923–29 completed a cycle of expansion and measurably exhausted the future possibilities of any considerable growth in old and new industries. This development is emphasized by the tendency of the population to become stationary. Under these conditions of decline, of exhaustion of the long-time factors of expansion, national and international, the contradictions of accumulation are no longer overcome by the stimulating growth of industry. Production of capital goods tends to become mere replacement. Accumulation proceeds on a lower level, the extortion of surplus value are limited. Capital becomes relatively more abundant (although it may experience an absolute decrease) because of diminishing investment opportunities. The contradictions of accumulation become more violent and explosive because the accumulation of capital, dependent upon the increasing production and absorption of capital goods, is limited, repressed. On a lower level, crises and breakdowns still act as a temporary solution of contradictions, but they are no longer overcome by accumulation on an enlarged scale; depressions become more grinding and recovery is limited because expansion no longer stimulates an upsurge of prosperity. Capitalist decline is accompanied by the desperate resort to imperialism and state capitalism—imperialism, to escape contradictions; state capitalism, to “lessen” and “solve” by state action the multiplying contradictions of accumulation.



State capitalism originates in the increasing contradiction between the older relations of competitive capitalism and the newer relations of monopoly capitalism, in the inability of monopoly capitalism to function without some form of state intervention in industry—itsself an indication of approaching capitalist decline. When the decline becomes definite and threatening, state capitalism becomes definite and inclusive. The institutional arrangements of Niraism must operate within the limits of the exhaustion of the forces of expansion, *i.e.*, of the decline of capitalism, which is still, moreover, tormented by the contradictions of accumulation on a lower level. Niraism cannot alter the composition of capital, or destroy large-scale industry, or overcome the tendency of the rate of profit to fall and the results of efforts to check it,\* or prevent wages lagging behind profits, or any of the other fundamental contradictions and antagonisms of capitalist production: these persist and more actively undermine the crumbling foundations of capitalism.

Where the “controls” of Niraism and state capitalism may modify any one contradiction, they create and aggravate other contradictions. State capitalism tends (primarily as a result of capitalist decline, not of state “controls”) to decrease the absolute mass of profits. While this may be accompanied by alternating scarcity and abundance of capital, the relative mass of profits and capital tends to increase, however, because of diminishing opportunities for profitable investment, intensifying the downward pressure on the rate of profit. That means a drive to raise profits by improving technological efficiency, displacing labor, and lowering production costs, thus aggravating the problem of excess capacity and the falling rate of profit by increasing constant capital and restricting markets. As a way out, an engineer<sup>2</sup> suggests that the NRA impose “an indirect tax which would tend to drive idle machinery out of existence and make further investment in unnecessary plants and equipment unattractive to capital.” As simple as all that! Almost as simple as the belief of some management engineers that the costs of excess capacity are a problem in the arrangement of machines and the more intensive exploitation of labor. As simple as the

\* The downward pressure on the rate of profit becomes stronger under the conditions of capitalist decline. “Until the world again enters upon a period of great industrial expansion, requiring large expenditures of new capital, the rate of interest obtainable from the highest type of security is likely to be low, very low—lower at all events than any yet seen.” Thomas F. Woodlock, “Money’s Hire,” *Wall Street Journal*, June 20, 1933. Woodlock speaks the jargon of the investment broker and confuses profit and interest, but his point is clear.

idea of progressives that income and inheritance taxes would break up the concentration of wealth (which has greatly increased since the taxes were imposed).

The proposal to tax unused capacity ignores the conditions which produce "idle machinery" and "unnecessary plants"—the change in the composition of capital, the tendency of the rate of profit to fall, and the surplus capital pressing for investment. Would not the tax intensify the fall in the rate of profit by adding the costs of the tax to the costs of unused capacity? And would it not encourage full use of capacity, sharpening the threat of overproduction and cyclical breakdown? Is there to be no more surplus capital? What of wages necessarily lagging behind profits, of investment income increasing more than consumption income? Is surplus capital to be taxed out of existence? What of the efforts to increase the mass of profits to check the fall in the rate, thereby enlarging the scale of production and excess capacity? And what of the unpreventable efforts to increase profits by increasing the productivity of labor, which usually cannot be done without creating more excess capacity? If Niraism "fixes" wages and prices and "restricts" output, would that not tend toward more excess capacity? This is admitted by a bourgeois economist: "A premium will be put on efforts to lower the cost of production for the sake of much higher profits. This will be done by investing more capital in order to increase the productivity of labor and may very well result in new and revolutionary technical developments . . . and can only lead to further overdevelopment of industries."<sup>3</sup> Is a tax on unused capacity to overcome the antagonisms between the output of capital goods and consumption goods, between one industry and another, between production and consumption—antagonisms resulting from the exploiting relations of capitalist industry?

The tax proposal, moreover, ignores the fact that excess or unused capacity is not absolute, except in rare cases: it is relative. It is an excess only in relation to *existing* deficiencies in mass purchasing power and markets, not in relation to social needs, for these are clearly abundant and pressing. The tax proposal amounts to a restriction, instead of liberation, of production, and is thus wholly in line with the tendency to repress economic progress, which is characteristic of state capitalism and Niraism and of the decline of capitalism. What is necessary is not the capitalist abolition of excess capacity, used or unused, but its socialist utilization to fill social needs.

These problems constitute a whole chain of causes and effects, one problem linked to another with links of steel. The problems involve

the fundamental, inescapable contradictions of accumulation, of capitalist production; these, in the epoch of the decline of capitalism must doom Nirraism and devour capitalism, particularly when the contradictions explode in imperialist war. And final contradiction and synthesis: in large-scale industry, capitalism has prepared the objective basis of socialism and has set in motion the dynamic forces of class struggle by means of which the working class, organized by the mechanism of capitalist production itself, mobilizes for the overthrow of capitalism.

## Summary

THE accumulation of capital, the production of profits and their conversion into capital, means both life and death to capitalism. For accumulation is beset with contradictions. It simultaneously promotes production and sets in motion forces antagonistic to production and accumulation.

Accumulation depends upon an increasing production and realization of surplus value and its conversion into capital by means of an increasing output and absorption of capital goods. The consequent enlargement of the scale of production results in a higher composition of capital: the proportion of variable capital (wages) falls in favor of constant capital (equipment and materials). A given quantity of labor sets in motion a larger quantity of equipment and materials. But this higher composition of capital limits the production and realization of surplus value. It means a fall in wages and a rise in output and profits. Mass purchasing power and consumption are restricted. The forces of production are developed more highly than the forces of consumption. An excess capacity arises, a capacity to produce beyond the power to consume of existing markets. If the excess capacity is unused it produces no surplus value and profit, while its fixed and semi-fixed costs eat into the realized surplus value and profit. If the excess capacity is used, it throws a mass of goods upon the market which cannot be sold at profitable prices. Competition is intensified. Profits are lowered. The rate of profit falls. In its efforts to check the fall, capitalist enterprise raises the productivity of labor and enlarges the scale of production, resulting in a still higher composition of capital, more excess capacity and competition, more limitation of the production and realization of surplus value, more downward pressure on the rate of profit. Among the efforts to check the fall is the resort to monopoly and to the export of capital and imperialism.

The fall in the rate of profit and the efforts to check it are fundamental factors in the instability of capitalist production and prosperity. Both are interlocked with cyclical crises and depressions. These breakdowns temporarily solve the contradictions of accumulation by de-

stroying and depreciating capital, which permits of a rising rate of profit on the surviving capitals.

In the epoch of the upswing of capitalism, the accumulation of capital is renewed, after a depression, on an enlarged scale. There is an upward movement in production and prosperity because the long-time factors of economic expansion make possible an increasing output and absorption of capital goods. The rate of profit falls, but the fall is compensated by an increase in the mass of profits.

In the epoch of the decline of capitalism, the accumulation of capital is *not* renewed, after a depression, on an enlarged scale. There is no upward movement of production and prosperity because exhaustion of the long-time factors of economic expansion now measurably prevent an increasing output and absorption of capital goods. The rate of profit falls, but the fall is no longer compensated by an increase in the mass of profits. The contradictions of accumulation are aggravated. Greater disproportions and disturbances are created, and there is more resort to monopoly and the export of capital and imperialism.

Excess capacity, a result of the higher composition of capital and the forces it sets in motion, is merely a *relative* excess capacity. It is not the peculiarity of a particular enterprise. Nor is it the result of misjudging demand or of defects in the realm of exchange. Excess capacity is an inescapable result of accumulation under the social relations of capitalist production. Excess capacity—while millions of wants are unsatisfied! Unused capacity—while millions are unemployed! The condition represents a *restriction* of consumption among the masses of workers, farmers, and professionals. For accumulation grows by increasing that part of the output of industry which is not consumed but is transformed into capital goods. Consumption is thus restricted. Yet consumption is necessary to production; new capital goods can yield profit only if they produce and sell their output at profitable prices. But production is developed more highly than consumption. Hence excess capacity, the falling tendency of the rate of profit, and the recurrence of cyclical crises and depressions. The contradictions of accumulation are entangled with the antagonism between production and consumption.



## PART FOUR

# The Antagonism Between Production and Consumption



## Introductory

IT seems true to say: man produces to consume. But that is true only of benighted savages and enlightened communists. Capitalist production aims to make profits. Consumption is subordinate to production, and consumption grows incidentally, as a mere by-product of the accumulation of capital. The worker works to consume, but capitalist production permits him to work and consume only if profits are thereby realized to enrich the owners of industry. Capitalist enrichment results from accumulation, not from consumption, which is a necessary evil. But the drive for the production of surplus value, for an increasing and absolute production, expansion, and accumulation of capital, necessarily restricts the consuming power of society (*cf.* the decline of wages relatively to profits). Production and consumption, instead of being complementary, are in fundamental antagonism.

Most of the early bourgeois economists practically ignored consumption, considering it merely an aspect of exchange. With the enormous increase in the productive forces of society and the multiplication of goods, economists began to consider the problem of consumption. But they did so in terms of distribution within the limits of existing economic relations, completely ignoring the fact that the problem was created by capitalist production itself. The problem was considered solved by the pre-1929 "new capitalism." But, aggravated by multiplying contradictions, the antagonism between production and consumption flared up in the most disastrous of cyclical depressions.

Now Niraism (and state capitalism in general) proposes to solve the antagonism between production and consumption, which involves the antagonism between profits and wages. President Franklin D. Roosevelt says: "We can make possible by democratic self-discipline in industry general increases in wages and shortening of hours sufficient to enable industry to pay its own workers enough to let those workers buy and use the things that their labor produces." . . . General Hugh Johnson, Administrator of the NRA: "Of course we are concerned with profits. The idea is to restore equilibrium, to establish and maintain purchasing power. You cannot have business without the investment of capital, and you cannot have that without profits."

During the intense drive for recovery the first emphasis should be put on purchasing power rather than profits because we think that is the quickest way to regain profits." . . . A. J. Morris, banker: "The sum total of all the revolutionary legislative and administrative policies upon which we have embarked embodies the single objective—'stimulation and stabilization of purchasing power.'" . . . Prof. Rexford Guy Tugwell, economist and rationalizer of Niraism: "Unless the agricultural, the laboring and the office worker groups in America, who comprise in all America the great body of consumers, are provided with buying power, our whole economic structure falls into idleness and ruin. Only if it [Big Business] is definitely governed [can it] assure a general well-being making possible a continuous mass consumption." . . . E. A. Filene, businessman, who prophesies (again!) the abolition of poverty: "It is not only possible to abolish poverty, but to raise the masses into a state of well-being."<sup>1</sup>

The pre-1929 prophets of prosperity (among them, damningly enough, Tugwell and Filene) used the same words: production depends upon consumption: as the workers are the largest consumers, prosperity depends upon and is necessarily accompanied by increasing consumption among the workers.\* . . . An economic historian, in 1928: "Gradually, consuming power was recognized to be not only the barometer of good times but also their determining element. Hence the cultivation of consuming power became the direct concern of manufacturers." . . . The president of the National Industrial Conference Board, in October, 1929, while the cyclical breakdown was developing and several weeks before the stock market crash: "A definite philosophy has arisen—the trend of American business policy is toward creation of widespread consumer purchasing power by providing high wages. There is being established a 'benevolent circle' in place of the vicious circle, extending from high wages to high consumer purchasing power, to increased demand for manufactured goods and services, and to still greater industrial production." . . . And a European economist, in 1929: "The disastrous business slump of 1920–21 made a deep impression upon the minds of American businessmen. It was

\* Among the ballyhoo-makers of prosperity who glorified Niraism was the advertising promotion staff of *True Story*, using the old words and tune: "Within the past ten years America has been making social and economic changes on the face of the earth. . . . The purpose of [Niraism] is to provide this great mass market [the workers] with *still* greater [1] buying power. If you have the mass production you must have mass consumption. . . . This method of securing national recovery is *already* working; it had begun to work long before the president's proclamation." Advertisement, *New York Times*, September 12, 1933.

realized as never before, that industrial prosperity depends not only upon the ability to produce but also upon consumption keeping pace with production."<sup>2</sup>

This great "principle" was no discovery. . . . In 1889 David A. Wells, an American economist, said: "We produce to consume, and we consume to produce, and the one will not go on independently of the other. An increase in the production of all useful and desirable commodities and services follows every increase in the ability of the masses to consume." . . . Twelve years earlier another American, frightened by the great strikes of 1877, which he condemned as "insurrectionary" and "communist," urged, in "the best interests of society, the interests of the capitalists themselves," raising the purchasing power and consumption of the workers: "The number of laborers who can buy must be large, or many of those who produce to sell will have little or nothing to do. Buyers are as important, in order to have prosperity, as sellers." . . . And Ira Steward, an early American labor leader, who believed the workers would eventually "consume" the capitalists out of private ownership: "Wealth cannot be consumed sparingly by the masses and produced rapidly. If the worker obtains less he spends less."<sup>3</sup>

The "principle" was neither new nor American in its origin. Jacob Vanderlint, an English merchant-economist, enunciated it in 1734, when capitalism was in its revolutionary youth:

"The labouring People in general are but half the Consumers they ought to be. . . . By making the Poor fare harder, or consume less than their reasonable Wants in that Station require, they being the bulk of Mankind, would affect the consumption of Things in general so mightily, that there would be a want of Trade and Business amongst the other part of the People. . . . If the labourers become much greater consumers this would certainly make abundance of Trade and Business. . . . Increase the power of labourers to buy half as many more necessities for their support and comfort, and there would be almost half as much more Trade and Business. . . . Raise the wages of the labouring People and augment the profits of the trading part."<sup>4</sup>

The "principle," in spite of its apparent economic logic (applicable only under non-capitalist conditions), contradicts the basis of capitalist production. An increase in consumption is profitable regardless of who the consumers are and only if it represents an increase in the output of capital goods. That is the tribute of the profit economy. As long as the output of capital goods rises consumption may increase, because consumer purchasing power is created (wages, part of salaries and



profits), and is spent wholly on the output of the consumption goods industries, *not* on the output of the industries producing capital goods. These were the conditions in the epoch of the upswing of capitalism, when the mechanization of older industries, the development of new industries, and the industrialization of new regions resulted in an increasing output and absorption of capital goods. Even then, however, the antagonism between production and consumption flared up in recurrent cyclical crises and breakdowns. The antagonism creates a permanent crisis in the epoch of the decline of capitalism because production and consumption are no longer stimulated by a constantly greater output of capital goods.

## Economic and Class Contradictions

**E**VEN after the coming of depression the belief prevailed that the pre-1929 prosperity was based upon consumption. It was thus expressed by M. J. Bonn, a German bourgeois economist:

"American prosperity was based on the prosperity of the ultimate consumer, and not, like the German boom, on the prosperity of industries producing capital goods which furnished employment for each other."<sup>1</sup>

But American prosperity, as much as the German, was *not* "based on the prosperity of the ultimate consumer." A high level of consumption *may* accompany prosperity, but it is *never* the primary cause. If German prosperity (in the cyclical sense!) was accompanied by a low level of consumption, it was not because prosperity was based upon the output of capital goods but because the output was limited by the conditions of economic decline, and consumption fell. If American prosperity was accompanied by a comparatively high level of consumption, it was not because prosperity was based on "the ultimate consumer" but because American industry, merely approaching decline, was able to produce and absorb a constantly greater output of capital goods. Under the conditions of the upswing of capitalism the fall in consumption is relative; under the conditions of decline the fall is absolute. Both in Germany and the United States, moreover, the output of capital goods increased more than consumption goods, hence the cyclical breakdown. . . .

That consumption was not the basic factor in American prosperity was observed by a business journal early in 1929:

"There is certainly nothing in the statistics to indicate the existence of that rapidly expanding consumptive capacity of the masses about which so much is heard to-day."<sup>2</sup>

Consumption in 1922-23 moved sharply upward, scoring an average yearly increase of 6.5%. One cause was cyclical recovery, another the considerable rise in wages. But the rate of increase fell abruptly. "In 1924 consumption was rather sharply below that of the year preceding; and the same was true of 1925, despite an appreciable recovery. In 1926 there was a short-lived spurt, the per capita volume

for that year being rather more than 6% above 1923. The per capita consumption for 1927 was about 2% below that of the year before, though still perhaps 4% above the figure for 1923. . . . There has ceased to be a noteworthy upward trend in the quantity of tangible goods consumed per capita by the people of the United States."<sup>3</sup>

Production in 1922-23 moved sharply upward, scoring more than the usual cyclical gains, but the rate of increase was not maintained.\* In spite of the great expansion in new and old industries, the rate of increase in production was downward. This seems to contradict the fact that there was an average yearly increase in production of 3.8% compared with 3.1% in 1901-13.<sup>4</sup> But the comparison is misleading. There was a major depression in the earlier period, none in the later. If the major depression years of 1907-08 are eliminated, the two periods become more comparable, particularly as each had two minor depressions. On this basis production scored an average yearly increase of 6.3% in 1901-13 and only 3.8% in 1922-29. Still more significant, *the average yearly increase in production was smaller in 1909-13 than in 1902-06 and smaller in 1922-29 than in 1909-13*, the rates of growth being 7.6%, 4.6% and 3.8%. The upward movement in production began to flatten in 1909-13, continued to flatten in 1923-29, and is still flattening. This is a serious threat to capitalist production, for it depends upon an increasing rate of expansion and of capital investment.

A relative or absolute decrease in consumption is not incompatible with capitalist prosperity. But if the rate of increase in production was smaller than pre-war, why the flourishing capitalist prosperity of 1923-29? The answer is in the accumulation of capital and the output of capital goods. In spite of a flattening in the upward movement of production, there was an unusually large increase in the output of capital goods and consequently in dividend and interest payments (Table I). Even in 1923, when consumption made a much larger gain than in the following years, the rate of increase in the output of capital goods was more than twice the rate in consumption goods. The statistical picture of the disproportions in the major economic factors clearly reveals the causes both of capitalist prosperity and of cyclical breakdown. At the basis of the disproportions is the tendency for the output of capital goods to rise more than consump-

\* The output of manufactures rose from \$39,050 million in 1923 to \$40,400 million in 1925 and \$41,000 million in 1927—not a startling increase. Output rose to \$47,100 million in 1929, a sharp and disproportionate rise definitely bound up with the cyclical crisis. Department of Commerce, *Statistical Abstract of the United States*, 1931, p. 483.

TABLE I

*Antagonistic Factors in Production and Consumption, 1923-29*

YEAR	PRODUCTION	CAPITAL GOODS	CONSUMPTION GOODS	DIVIDENDS -INTEREST	TOTAL WAGES
1923	100.0	100.0	100.0	100.0	100.0
1924	*	89.6	99.1	103.8	101.3
1925	103.5	105.6	108.1	117.5	107.2
1926	*	117.6	112.6	132.6	113.7
1927	110.1	114.6	111.7	144.1	114.6
1928	*	116.0	117.1	150.8	112.4
1929	120.6	136.0	118.0	177.2	*

\* Not available.

Source: Production—*Census of Manufactures*, 1929, v. I, p. 16; capital goods and consumption goods—F. C. Mills, *Economic Tendencies in the United States*, p. 280; dividends and interest, all corporations (exclusive of interests paid by banks)—Bureau of Internal Revenue, *Statistics of Income* for the respective years; wages (all wage-workers)—W. I. King, *The National Income and Its Purchasing*, p. 132. The index of dividends only was 200 in 1929. Interest rose 31%, dividends 100%.

tion goods and the enormous lag of wages behind dividends and interest.

While the rise in the output of capital goods always exceeds that in consumption goods, this was particularly marked in 1923-29. Where there was an average 5% rise in capital equipment in the years before the World War, the post-war average was 6.4%. "The index shows an appreciably more rapid growth of those products of economic activity which may be called procreative, than of end-products in the form of consumption goods. The equipment for producing goods for ultimate consumption was being augmented year by year at an exceptionally rapid rate. An increasing proportion of our total annual output of goods took the form of equipment designed to further the processes of roundabout production."<sup>5</sup> Machinery, the most "procreative" of capital goods, scored the largest gains. Consumption scored much smaller gains, and these were dependent upon larger gains in capital goods: when the output of capital goods slowed down, prosperity crashed into depression and consumption fell seriously. The growth in capital goods and in dividends and interest react upon one another: an increasing output of capital goods permits the realization of larger profits, which in turn permit an increasing investment and output of capital goods. Disproportions were sharpened, resulting in the minor depressions of 1924 and 1927, warning of the coming catastrophe. The depressions were temporarily overcome by the

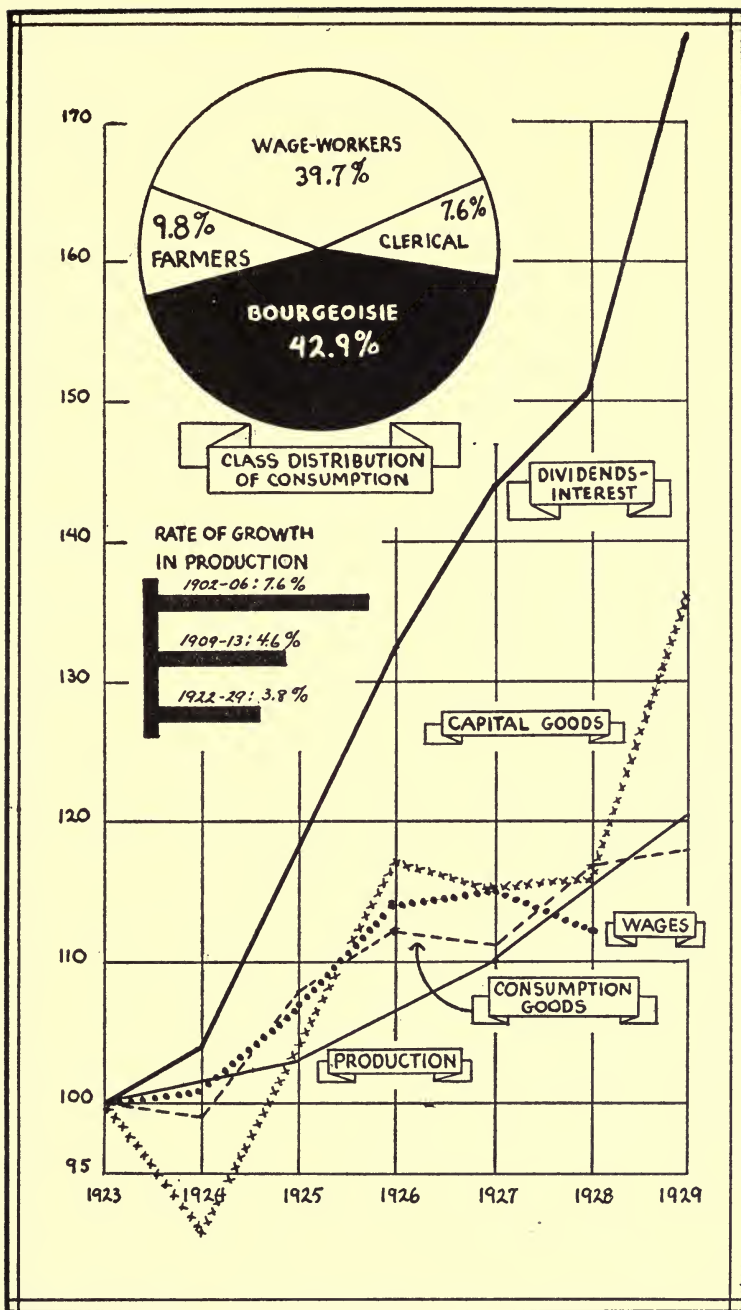
demand for capital equipment in the newer industries and for more efficient equipment in the older industries to raise the productivity of labor. At the same time exports of manufactured goods rose from 7% of the total in 1923 to 8% in 1929; these exports increased an average of 9.3% yearly compared with an average of 7.6% in 1901-13.<sup>6</sup> The increase was largely due to the American export of capital, which financed foreign purchases. Thus *for a time*, and in spite of minor interruptions, there was a constantly greater output and absorption of capital goods, the basis of prosperity.

The relative increase in the output of capital goods was even greater than appears in Table I, whose index of consumption goods overestimates the rise in consumption. It includes residential construction, which is, particularly in the case of apartment houses, more in the nature of capital goods, and which, since it experienced an unusually great rise, inflates the index of consumption. Moreover, the index represents the physical volume of consumption goods *produced*, and gives no indication of the fact that sales were below output and often below values. Thus in 1923-29, while the yearly average of production (all goods) was 5.9% above "normal," consumption (retail sales) was only 1.3% above "normal."<sup>7</sup> This reveals more clearly the tendency of capitalist enterprise toward an unconditional development of production, creating the antagonism between the capacity of industry to produce and the consuming power of a society based on class divisions.

The great increase in dividends and interest—nearly four times the increase in production and five times that in wages—arose logically. It arose because of the enlargement of the scale of production and the consequent change in the composition of capital. As constant capital (particularly the fixed portion) rises more than variable capital, more must go to capital than to labor, in spite and because of the tendency of the rate of profit to fall. Wages in manufactures rose 6%, capital investment and profits much more.\* It is argued by the apologists of capitalism that a rise in other wages compensates for the relative fall of wages in manufactures. It does not. The wages of all workers rose not much over 12%, dividends and interest 77%. The major part of dividends and interest is not consumed, it is

\* In the twenty-year period 1909-29 the average yearly rate of increase in interest was 9.3%, in dividends 7.1%, and in wages and salaries 6.5%. Robert R. Doane, *The Measurement of American Wealth* (1933), p. 48. The increase in wages was less than 6.5%, because that percentage is enlarged by the inclusion of salaries, which rose much more than wages.





VII. CONTRADICTIONS IN PRODUCTION AND CONSUMPTION.

re-invested; the major part of wages is consumed, it is spent on consumption goods (and services). Because of these developments a deficiency in consumption is eventually created, an expression of the antagonism between production and consumption, of the contradiction between the unconditional increase in production and the conditional increase in consumption.

The economic contradictions in the movement of production and consumption are necessarily expressed in class antagonisms:

Struggle between the workers and employers over wages: while wages may rise absolutely, they always fall relatively to profits.

Unequal class distribution of the national income: while the workers' absolute share may rise, their relative share falls.

Unequal class distribution of consumption: while the workers' absolute share may rise, their relative share falls, and proletarian consumption always tends toward a minimum.

Considering the small increase in general consumption, there was not much, if any, increase in consumption among the workers. Most of the rise in total wages was concentrated among the better-paid workers, who are apt to save more of an increase than they spend (workers' savings rose in this period). Moreover, there was a fall in consumption among workers in the depressed industries and among the 1,000,000 workers who in this period were added to the reserve army of the unemployed. At the same time there was a substantial rise in consumption among the other classes (*not* the farmers). It rose considerably in the circles of the lower and intermediate bourgeoisie, among whom the automobile, modernistic furniture, and Mexican handicrafts became symbols of "cultural" standards of living. And there was a sharp upward spurt in conspicuous competitive consumption in the circles of the upper bourgeoisie, particularly among the speculators who "cleaned up." The class distribution of consumption (Table II) became more unequal. Capitalist production, in the epoch of its upswing, increases consumption, but mainly among non-workers: economically regardless of who the consumers are, its whole class-political arrangements insure a concentration of consumption gains among the non-workers.

The prophets of prosperity (and now of Niraism) not only assumed that the workers were "enormously" increasing their share in consumption but that already they were the largest consumers. "The worker," said one of them, "is our greatest and most profitable customer. Our prosperity is 86% derived from our working population, for the millions of wage-earners constitute just that proportion of

TABLE II

*Class Distribution of Consumption, 1928*

CLASS*	NUMBER IN CLASS	PER- CENT	AMOUNT (millions)	PER- CENT	AVERAGE
Working Class:					
Wage-Workers	27,750,000	58.5	\$18,250	39.7	\$660
Clerical	4,750,000	10.0	3,500	7.6	735
Farmers	7,400,000	15.6	4,500	9.8	610
Bourgeoisie:					
Lower	4,300,000	9.0	6,000	13.0	1,395
Intermediate	2,880,000	6.1	7,250	15.8	2,515
Upper	382,241	.8	6,500	14.1	17,000
Total	47,462,241	100.0	\$46,000	100.0	\$970

\* Wage-workers include 2,300,000 hired farm laborers; farmers include 1,200,000 farm laborers working on home farms; bourgeoisie—capitalists, rentiers, merchants, etc., and managerial, supervisory and technical employees—is grouped according to income: lower, incomes below \$3000 yearly; intermediate, incomes of \$3000 to \$10,000; upper, incomes of \$10,000 and over. Number in class includes only the gainfully occupied.

Source and methods of computation: Consumption means retail sales of tangible consumers goods plus food produced and consumed on farms. The Census Bureau estimates retail sales in 1929 at \$49,000 million (United States, Fifteenth Census, 1930, Distribution, v. I, *Retail Distribution* (1930), pp. 47-53). It is assumed that retail sales were \$1,000 million less in 1928, or \$48,000 million. From that is deducted \$4,400 million for goods which are essentially capital goods or supplies (motor trucks, farm implements, office, school, and store supplies, but not automobiles and household appliances), to which is added \$2,400 million for food produced and consumed on farms, making a final total of \$46,000 million. The workers' budget is made up of 31% spent on food, 13% on clothing, 5% on furniture and house furnishings, and 8% miscellaneous goods such as radios, refrigerators, etc., or 57% of the workers' income spent on consumption goods; balance, 24% for rent, light and fuel and 19% for illness, amusements and savings. (These estimates represent a revision of data in the cost of living in the United States, U. S. Bureau of Labor Statistics, Bulletin 357.) Of the farmers' income (see Chapter VI), \$2,100 million spent on consumption goods, to which is added the figure for food produced and consumed on farms. Clerical employees are assumed to spend 55% of their income on consumption. If dwellings were included the share of workers and clerical employees in consumption would be materially lowered. "Average" in the case of farmers and intermediate and upper bourgeoisie means family share; in the case of workers, clerical employees and lower bourgeoisie, the family share in consumption is somewhat larger than the "average" in this table, as these families often have more than one person working.

our buying public."<sup>8</sup> But what Jacob Vanderlint said in 1734 was still relatively true: "The labouring People in general are but half the Consumers they ought to be." Although nearly three-fifths of the gainfully occupied, the wage-workers consumed only two-fifths of

the goods produced; including clerical employees, the share in consumption of the working class was only 47.3%, although this class was 68.5% of the gainfully occupied.\* The combined share in consumption of the bourgeoisie was 42.9%, although this class includes only 15.9% of the gainfully occupied. In the circles of the upper bourgeoisie, the enormous total consumption of \$6,500 million and average consumption of \$17,000 measures the conspicuous competitive expenditures in that class and contrasts sharply with the miserably small share of the producers: the one depends upon the other. If the value of food produced and consumed on farms is deducted from the farmers' total, their share becomes much smaller, below 5%. Most of the farmers' income is spent on the payment of interest and taxes and in the purchase of equipment and supplies, which are inescapable expenses. Their purchases of both consumption and capital goods did not account for more than 7% of the total. The farmer, whose share in consumption decreased sharply, is no longer necessary to capitalist prosperity.† Standards of living among wage-workers, clerical employees, and farmers (except the prosperous small upper layer) were roughly:

Below subsistence levels, 10,000,000.

Subsistence levels, 20,000,000.

Comfort levels, 6,500,000.

Thus there were, including dependents, at least 85,000,000 persons living on or below subsistence levels—in the “Golden Age” of American capitalism! That was during an upswing of capitalism; conditions must become worse in the epoch of decline.

Not only was the pre-1929 prosperity not based upon consumption, it was least of all based upon consumption by the workers. Consump-

\* Robert R. Doane, *The Measurement of American Wealth* (1933), p. 75, estimates that, in 1929, the workers' share in *all* expenditures, including services and finances, was 31%; the agricultural share was 10%.

† That the farmers are no longer necessary to capitalist prosperity is brutally admitted by the New York Trust Company in its publication, *The Index* (January, 1932, pp. 16–17): “Another view widely held but not so frequently expressed is that, relatively, agriculture no longer constitutes a major factor in our highly industrialized economy. . . . While [the farmers' expenditures] are important and probably, as in the case of exports, represents a margin on which a good proportion of profits are based, they are not large enough to warrant the assertion that the national welfare depends to an overwhelming extent upon agricultural prosperity, or that recovery from depression can be brought about by restoring farm prices to their previous levels. . . . In recent years American industry has not been affected substantially by changes in farm purchasing power.”

tion is necessary to production, but capitalism is incapable of systematically developing the conditions of consumption. It was (and is) assumed that new purchasing power was (and can be) distributed proportionally among all groups of the people and in a manner to balance consumption and production. But there is no such balanced distribution under capitalism. The workers' share in new purchasing power is always smaller than the share of all other classes, and investment income always rises more than consumption income. Hence the unstable equilibrium of capitalist prosperity is undermined by the action of economic forces which involve a class antagonism: capitalist production and accumulation constantly limit the purchasing power and consumption of precisely that class, the workers (and poorer farmers), whose consumption is indispensable to maintain a balance between production and consumption. The temporary equilibrium of capitalist prosperity is shattered when the mounting forces of production are unable to overcome the mounting barriers of the limited conditions of consumption. Crisis and breakdown follow.



## Excess Capacity, Competition, and Speculation

THE antagonism between production and consumption, the conflict between the absolute expansion of one and the conditional expansion of the other, was particularly sharp in the period 1923-29. The growth of new and old industries, the consequent increasing output and absorption of capital goods, and the rising productivity of labor greatly augmented the forces of production, which clashed with the limited conditions of consumption. These developments resulted in a higher composition of capital, an increase in excess capacity, the intensification of competition, more superabundant capital, and a stronger downward pressure on the rate of profit. The situation was already acute in 1926; and the danger was recognized by a financial journal:

"Capital has become so abundant that it seeks to sell itself for use in almost any sort of productive enterprise. . . . This country has an exceedingly ample equipment of manufacturing plant; its efficiency level, in rising decidedly, has for practical purposes increased the proportions of our overequipment; and it is enabled to continue for the present by the superabundance of capital which seeks incessantly some place in which it may earn a reasonable return for its use. This is the general mechanism by which manufacturing competition has now been sharpened to unprecedented severity. The competition must go on, for failure to compete will mean the rapid destruction of capital; necessarily the failure to succeed will also mean the loss of capital; and loss of this character is certain to occur on a pretty considerable scale because our production is obviously greater than our power to absorb it."<sup>1</sup>

"Superabundance of capital"—because of low wages and high profits, of changes in the composition of capital and the increasing appropriation of surplus value.

"Our production is obviously greater than our power to absorb it"—because capitalist production and accumulation limit purchasing power and consumption among the masses of workers and farmers.

The tendency of the rate of profit to fall was strengthened. Efforts

to check the fall increased competition and excess capacity and created more downward pressure on the rate of profit. The experience of one company organized in 1919 to manufacture household appliances, which within four years captured one-quarter of the market, was typical:

"The income of this company increased very rapidly until its market became satisfied and its competitors caught up, and thereby limited sales to a 'fair share' of a market rapidly becoming saturated by the efforts of this single manufacturer. In seeking more than a fair share of the available market its production facilities were expanded to a capacity sufficient to produce two-thirds of the annual requirements of the industry. This overcapacity is now a burden on the business, since the relative dollar volume of sales from its plant investment has fallen off on an average of almost 10% annually since 1926. . . . Larger profits were secured in 1923 and 1924 than have been earned in recent years on a greater volume of sales. . . . More and more markets are being saturated by our methods of mass production, and as many of these show signs of becoming limited markets, the tendency toward declining income is broadening to include many well-known and wealthy corporations."<sup>2</sup>

The tendency of the rate of profit to fall forced efforts to raise profits by reducing costs or increasing output to secure a larger share of markets, or by a combination of both methods. While this always meant greater capacity, it did not always mean greater expenditures on capital equipment. More economical use of raw materials, utilization of waste, and standardization of products increased capacity and output. Or labor was exploited more intensively; one method was the "stretch-out" system, by which one worker tended more machines. In the case of cotton mills, although there was in 1924-29 a net shrinkage in machinery, hours worked per spindle rose from 2,353 to 3,073 by growing use of the double-shift.<sup>3</sup> As these methods increased capacity and output without the buying of new equipment, there was no corresponding development of purchasing power and consumption among the workers producing capital goods. The result was an aggravation of excess capacity and competition.

Productive capacity was, however, augmented mainly by investment in new equipment. Capital was abundant, because of high profits. And credit was abundant, because it is the nature of capitalist production to inflate credit in the prosperity phase of the cycle. Investment in new capital equipment was stimulated by the unusually rapid improvement in technological efficiency, increasing greatly

the productivity of labor and the reduction of labor costs. But this meant a higher composition of capital: less variable capital (wages) and more constant capital (equipment and materials), limiting the workers' purchasing power and consumption. Productive efficiency and output were developed regardless of the relatively limited conditions of mass consumption. The result was an aggravation of excess capacity and competition.

Excess capacity and competition were particularly marked in the newer industries. Their initially large profits and constantly growing markets led to an overexpansion of existing plants and the establishment of new, unnecessary plants by capital seeking profits anywhere, anyhow. "There is no better illustration than the pouring of new capital into the radio-receiving set industry in 1928 and 1929. Some of the pioneers made very large profits which they wasted by investing to increase their output. At the same time the cost of production was lowered a great deal by one maker. In the short space of 18 months the potential production of this industry was increased threefold, to an estimated 15,000,000 sets annually by the end of 1929. Even in that year the whole market absorbed only a little over 4,000,000 sets." <sup>4</sup> This was generally true of all the newer industries, where an initial high rate of profit was transformed into its opposite, a low, falling rate of profit. The newer industries' contribution to excess capacity was enlarged by their products competing with older products. The radio competed with the phonograph, rayon with the older textiles, rubber and substitutes with leather, celotex and 21 other products with wood. The result was an aggravation of excess capacity and competition.

The expansion of plant capacity beyond the needs of their own markets led many enterprises to "take up the slack with sidelines." That is, they added new products to their output. The General Electric Company and the Westinghouse Electric and Manufacturing Company began to make radios. . . . Two automobile accessories companies went in for the manufacture of radios, and one of them added hardware for good measure. . . . A radio company began to manufacture electric refrigerators. So did the Savage Arms Company, and it included washing machines. . . . General Motors added electric refrigerators, radios, dental apparatus, and other products unrelated to automobiles. . . . The American Car and Foundry Company became manufacturers of motor buses, the Anaconda Copper Company of copper and brass products, the Aluminum Company of America of a whole series of new products. . . . The American Ice Company, threat-

ened by mechanical refrigeration, dipped into surplus and started a power laundry business. . . . Another company, manufacturing billiard tables, added phonographs and radios to its output. . . . This continued during the depression: General Motors began to manufacture gas refrigerators; the Pennsylvania Railroad built a brass foundry, the most efficient of its type.<sup>5</sup> . . . Where these "sidelines" meant the use mainly of old equipment they tended to raise the rate of profit, although lowering it for other enterprises; where new equipment was mainly used it tended eventually to lower the rate of profit while raising its mass. . . . At the same time there was an increase of integration, the combination in one enterprise of different processes or parts of manufacture. . . . The result of all these efforts to raise the mass of profits and check the fall in the rate was an aggravation of excess capacity and competition.

Excess capacity was enormous. In 1928-29, in spite of the sharp upward spurt in production, most American industries were capable of producing from 25% to 75% more goods than markets could absorb.

The unused portion of excess capacity, ranging up to 75%, was particularly great in the newer industries: radio, automobiles, rayon, chemicals. . . . Because of the growing use of electric power, more efficient combustion methods, and the higher productivity of labor, coal mining was increasingly tormented by unused capacity. . . . There was an unused capacity of 15% in paper manufacture, 20% in petroleum refining, 25% to 40% in glassware, 45% in wheat flour, in textiles from 15% in cotton to 40% in silk, and in iron and steel from 5% in steel ingots to 45% in pig iron. . . . In sugar refining the unused capacity was 100%. . . . While capacity in the plants of the United States Steel Corporation rose 15%, operations fell from 89% of capacity in 1923 to 87% in 1929, with an average of 82% operation in 1924-29. . . . Unused capacity was 28% in Portland Cement mills, 50% in boots and shoes, and 40% in clothing. . . . In shipbuilding, output fell from 9,472,000 gross tons in 1919-21 to 631,000 gross tons in 1927-29, an indication of tremendous unused capacity. . . . It amounted to 64.2% in central electric stations.<sup>a</sup> . . . Considerable excess capacity existed also in oil and metal production, on the railroads (partly because of bus and motor-truck competition), and in electrical manufacturing.

Where excess capacity was unused, its fixed costs ate into realized profits, forced down the rate of profit and was a perpetual invitation to enlarge output regardless of the limited, saturated condition of



markets. Where excess capacity was used, it meant an output of commodities beyond the existing effective demand (in terms of available purchasing power), which aggravated competition and lowered prices to unprofitable levels.

Excess capacity is related, both as cause and effect, to the disproportions always prevailing in capitalist production. Any considerable excess capacity in an industry creates disproportions in its own inner relations and in its outer relations with other industries. Differences in the rate of growth of industries, particularly when new industries develop, create new or intensify old disproportions. There is relative overdevelopment of some and underdevelopment of other industries. One result is instability: competition of industry against industry, more pressure on limited markets, a stronger drive toward overproduction. The disproportions are a result of the planlessness of capitalist production. But the planlessness itself and the disproportions it engenders are an outgrowth of the antagonism between production and consumption: of the greatest of all disproportions, that between the output of capital goods and consumption goods. Capitalist production is a "continual process of disproportionality." The disproportions change continually; they are not destroyed but "overcome" by disproportions creating new relations and assuming new forms which permit an upward movement of production. This process results in the temporary, unstable equilibrium of prosperity, an equilibrium created and maintained by perpetual changes within itself, temporarily "easing" contradictions. But eventually the accumulating disproportions change in a manner which upsets the equilibrium, and prosperity collapses into depression.

Where prices are not lowered to unprofitable levels by excess capacity and the aggravation of competition, the same result may be indirectly achieved by multiplication of the costs and wastes of distribution. This is a characteristic aspect of capitalist production. Changes in the composition of capital, which increase the productivity of labor, decrease the relative wages of the workers, and thus limit the conditions of consumption. The capitalist is continually reducing labor costs; it never enters his head to raise wages. But this develops an antagonism. Distribution costs mount as a larger mass of commodities are thrown upon relatively smaller markets and competition is aggravated. The part of consumer price represented by distribution costs rose from 30% in 1870 to 55% in 1930. Most of the increase was in selling costs. It cost more in 1922-28 to get a \$25 order from a retail grocer than it did in 1902 to get a \$75 order. Traveling salesmen rose



from 179,320 in 1920 to 223,732 in 1930, or 25%.<sup>7</sup> Instalment selling added greatly to distribution costs. So did advertising. Its devotees justify advertising with all sorts of complex arguments. But they are wrong. The increase in advertising (nearly \$2,000 million in 1929) is a direct result of the growing antagonism between production and consumption, of the clash between the expansion of production and the limitation of consumption, with which is involved the problems of excess capacity, mounting overhead costs, aggravated competition, and limited markets. Advertising does not lower prices, it tends to raise them: the purpose of an advertiser is "to lift his product out of competition" and secure more sales and higher prices. In its methods advertising degrades truth, is cynical of mass intelligence, caters to the lowest instincts, and uses fraudulent economics and worse psychology.\* That does not worry the capitalist, of course. But there is worry in the fact that distribution costs, including advertising, tend eventually to lower the rate of profit.

Capitalist production saves on labor and multiplies the productive forces. But two contradictions arise which constantly torment capitalist enterprise. Saving on labor decreases relative wages and limits the conditions of consumption. This sets in motion the forces of excess capacity, sharpened competition, and mounting distribution costs. These costs absorb much, if not most, of the saving on labor, and eventually strengthen the downward pressure on the rate of profit. The efforts of capitalist enterprise to escape these manifold contradictions created bedlam:

"American business has gone 'salesmanship mad' in the last ten years, due to increasing economic pressure and narrowing net profits, and has utterly overstressed high-pressure personal salesmanship. . . . A great horde of salesmen is overrunning the country, 'pepped up' and trained to the last notch of slick salesmanship. The cost of personal selling has in the meanwhile mounted, and the results per unit of effort have declined. Dealers and consumers alike have been pressed beyond the last degree of decency and good business. The number of commodities on the market and the number of salesmen representing

\* "Every human being has a vote every time he makes a purchase. No one is disfranchised. . . . Every day is election day." W. T. Foster and Waddill Catchings, *Profits* (1928), p. 133. This "democracy of the consumer" is as limited as bourgeois democracy in general. The consumer's freedom of choice is enormously limited by the pressure of advertising, whose job it is to *make* customers; it is still more limited by income. Only the rich enjoy this democracy, as only they really enjoy other forms of bourgeois democracy.

them is now enormous. . . . The dealers, if they 'fell' for the salesmen, would buy 500% to 1000% more goods than they could ever afford—or should be asked—to buy. . . . They merely pile up the cost of selling and increase waste. . . . The vast bedlam of salesmanship and salesmen, and the noise of their competitive shrieking, and the annoyance of their unrelenting, almost desperate tracking down of prospects, is growing greater every year. . . . *And the amazing thing is that with all this enormous effort we can sell only 65% of the products that American factories can make.*"<sup>8</sup>

It *was* bedlam. "The amazing thing is that with all this enormous effort we can sell only 65% of the products that American factories can make"—while the majority of the people were living at or below subsistence levels! Bedlam—because industry retained in higher profits and distribution wastes what should have gone into mass consuming power. (One part of distribution wastes, it is true, represents wages, hence consuming power; but another part represents salaries and profits whose recipients tend to invest more than they consume.)

Bedlam was styled the "new competition." One commodity began to compete with all other commodities. Industry competed with industry; an industry, otherwise ruthlessly competing within itself, combined for cooperative competition with other industries to secure "a larger slice of the consumer's dollar." Factors formerly cooperating began to compete; where once there was the manufacturer, the wholesaler, and the retailer, now chain stores abolished many wholesalers, manufacturers opened their own stores, and chain stores opened their own manufacturing plants.

The "new competition" was aggravated by more "monopoly competition," both activated by the tendency of the rate of profit to fall. Monopolist combinations, the large aggregations of corporate capital, competed in the same markets or over the prices of materials (raw and semi-finished) they bought and sold among themselves. Monopolist combinations competed with small producers by capturing their markets or depressing the prices of the semi-finished materials or parts bought from the small producers. It is an essential technique of monopolist combinations to raise the price of goods they sell and depress the price of goods they buy. Thus monopoly, arising out of competition and striving to overcome it, simultaneously intensifies competition as a means of increasing the mass of its profits at the expense of non-monopolist enterprise.

It *was* bedlam. . . . Forced to utilize its excess capacity, the petroleum industry wastefully and unprofitably flooded the markets with

oil. . . . Excess capacity in refining led to the multiplication of gasoline retail outlets, which rose to 318,000 in 1929, one to every 83 registered automobiles; the situation was made worse by Shell Union Oil, waging war on all fronts, starting its own chain of gasoline stations. . . . Natural gas competed with manufactured gas; the competition of electric power made coal a "sick" industry. . . . Bitter competition among manufacturers of tires led to the sale of tires through company distributing chains, mail-order houses, and service stations. . . . Manufacturers of products competing with wood spent \$22,000,000 through their associations on promotion and selling campaigns against lumber, which retaliated with a campaign of its own. . . . To meet the competition of rayon the older textiles spent "immense" sums on "consumer advertising," \$750,000 yearly by one company alone. . . . The National Retail Shoe Dealers Association in 1927 appropriated \$4,000,000 for an advertising campaign to sell more shoes on the basis of style and color appeal; the industry was capable of producing three times more shoes than the market was absorbing. . . . The fall in food consumption, accompanied by increasing productive capacity, led forty different food groups to mobilize and wage war on each other. . . . Mayonnaise invaded the butter market; at a convention of the Mayonnaise Manufacturers Association a "butterless banquet" was served and a campaign was launched to "popularize mayonnaise among consumers as a substitute for butter." . . . The advertising of a cigarette company, warning against the bad effects of sweets, led to organization of a Sugar Institute which spent millions advertising the merits of sugar. . . . Appropriations of \$300,000 were made by the United States Fisheries Congress, by the Ice Cream Manufacturers Association, and by the Allied Baking Industry to "educate" consumers to buy more of *their* products in preference to other products. . . . The market was flooded with 402 brands of dentifrices, whose advertising involved millions of dollars and millions of lies. . . . The "woman beautiful" had her choice of 2,500 perfumes and nearly as many face powders: one manufacturer advertised: "A face powder for every mood!" . . . Automobiles and cigarette advertising reached new high levels in money and new lows in tone. . . . Drug stores sold 100 more articles than a few years previously; candy was sold in clothing, dairy, dry goods, drug and grocery stores and in delicatessens, bakeries, auto accessory stores and gasoline stations. . . . As if there were not enough products on the markets, chain stores increased the number of their "private" brands, sales of which rose to \$762 million in 1929. . . . Chain stores, considered a "rationaliza-

tion" of distribution and a measurable solution of its problems, aggravated competition and excess capacity. Their pressure forced independents to organize "voluntary chains." Chain competed with chain, forcing mergers and combinations. The larger chain-store systems demanded and secured price concessions from manufacturers; some chains simply informed manufacturers at what price their goods would be bought. At the same time, chain stores increased their manufacturing activities and plant capacity, competing directly with manufacturers, who met the challenge with mergers and combinations.<sup>9</sup> . . . It was, and is, bedlam.

One result was a great increase in instalment selling, and it added to the costs of distribution. In 1929, instalment sales amounted to \$6,000 million, or 12% of all retail sales; the amount of instalment debt outstanding at any given moment was from \$2,225 million to \$2,500 million.<sup>10</sup> Large profits were made by the finance companies dealing in instalment paper, in the creation of artificial purchasing power. Instalment selling undoubtedly stimulated consumption and production, as outstanding instalment credit represents sales which would not have been made for the time being. But instalment selling has obvious limitations as an offset to inadequate consumer purchasing power. To escape the effects of excess capacity and depressed mass consumption, instalment selling must increase progressively and cover industry as a whole. The one is impossible because there are limits in the incomes of instalment buyers, the other is impossible because instalment credit is confined to five or six kinds of durable consumption goods (clothing is an exception, but unimportant). The creation of artificial purchasing power was further limited by its concentration in the newer industries—automobiles (one-half of all instalment sales), radios, washing machines, mechanical refrigerators; only two of the older industries, furniture and sewing machines, were substantially represented. In these industries, sales and output were augmented by instalment selling; it quickened and enlarged the growth of new industries, an important factor in prosperity. But the result was overdevelopment, particularly in automobiles and radio. When instalment buying reached its limits, manufacturers were left with an enormous excess capacity. Moreover, instalment consumer credit, unlike producer credit, is not payable out of earnings increased by the credit but out of a constant income. It mortgages future income. This means that eventually, when instalment sales become stationary or fall, new income is used to pay for old goods previously produced and sold and limits demand for new goods. (During depression, when new and



outstanding instalment credit falls, instalment payments lessen demand for current consumption goods and make the depression worse.) Instalment selling increases the instability of capitalist production by augmenting output and sales of optional or postponable goods. The industries using instalment selling waged ruthless competitive war upon all other industries for a "larger slice of the consumer's dollar." Capitalist production *is* bedlam.

Bedlam reached its climax in the theory of "progressive obsolescence," seriously considered by the tormented magnates of industry, finance, and advertising:

"If we are to have increasingly large-scale production there must likewise be increasingly large-scale consumption. . . . *To get more money into the consumers' hands with which to buy . . . is a mere minor stopgap.* There is, however, a far greater and more powerful lever available. I refer to a principle which, for want of a simpler term, I name *progressive obsolescence*. This means simply the more intensive spreading—among those people who now have buying surplus—of the belief in and practice of buying more goods on the basis of obsolescence in efficiency, economy, style or taste. *We must induce people who can afford it to buy a greater variety of goods* on the same principle that they now buy automobiles, radios and clothes, namely, *buying goods not to wear out, but to trade in or discard after a short time when new or more attractive goods or models come out.* The one salvation of American industry, which has a capacity for producing 80% or 100% more goods than are now consumed, is to foster the progressive obsolescence principle, which means buying for up-to-dateness, efficiency and style, *buying for change, whim, fancy.* . . . We must either use the fruits of our marvelous factories in this highly efficient 'power' age, or slow them down or shut them down."<sup>11</sup>

This is economic and cultural lunacy, but a lunacy wholly in accord with the social relations of capitalist production. Capitalism must produce and sell goods, but from the standpoint of profit it makes no difference *what* goods or *who* buys them.

The lunacy of "progressive obsolescence" was matched by the desperation of proposals to *restrict production* (now one of the aims of state capitalism). Said the president of the Durham Duplex Razor Company:

"Manufacturing merchandise faster than it can be sold is one of the principal causes of the increase in competition. . . . We are turning out more merchandise than can be sold profitably. . . . Business



health can only be preserved by maintaining an equilibrium between production and consumer sales.”<sup>12</sup>

Thus was rejected the “principle” that production and prosperity depend upon mass consumption:

“Limit production,” with 2,500,000 workers already unemployed!

“Maintain an equilibrium between production and consumer *sales*,” “induce those people who now have buying surplus . . . to buy a greater variety of goods . . . not to wear out, but for style, change, whim, fancy,” while 85,000,000 workers and farmers were living on or below subsistence levels!

In spite of the clamor about “mass consumption” and “mass markets,” the equilibrium of capitalist production came to depend more and more on artificially stimulating the “wants” of small groups of people with an excess of purchasing power (an aspect of the unequal distribution of income). Luxury or variety production, representing consumption of which the workers are deprived, acquired increasing importance. The trade in luxury goods was one of the great stimulating forces in the rise of capitalism, and capitalist production since has increased the output of luxuries more than the necessities of mass consumption. In 1923–29, the American output of luxury or variety goods rose substantially because of the great rise in dividends and interest, in speculative profits, and in the concentration of income. Conspicuous competitive consumption was never as great, while mass consumption was practically stationary. In its revolutionary youth the bourgeoisie, particularly the Puritans, condemned luxuries, which were hated reminders of feudal privilege and power. But the condemnation was withdrawn after the bourgeoisie became the ruling class. Luxury is a badge of class differentiation and distinction, a ruling class necessity.

Luxury is also an economic necessity in the capitalist system, based upon class exploitation and antagonisms. As mass markets are saturated because of the limited conditions of mass consumption, an increase in production, other than capital goods, comes to depend upon “those people who have buying surplus, who buy for style, change, whim, fancy,” and whose incomes, particularly the speculative, rise steadily during prosperity. Surplus capital to flow into luxury or variety production, where low wages and the lower composition of capital (more variable than constant) yield an exceptionally high rate of profit. This eases the pressure of surplus capital on the rate of profit in other industries. But the high rate of profit in variety production eventually tends to fall, because of excess capacity and competition and

because modern luxury production often requires large fixed capital.

Another contradiction arises: as mass production grows, and simultaneously limits mass consumption while augmenting surplus capital and the higher incomes, capitalist industry depends increasingly upon variety production, *the opposite of mass production*. This contradiction becomes constantly more acute. Its "either or" aspect is thus described by Carl Brinkmann, a conservative German economist who is now a fascist:

"A new epoch seems to put modern civilization before the alternative either of clinging to the capitalist system with higher although less equalized standards of living, or of embarking on a communist planned economy with a primarily equalized although possibly very low standard."<sup>13</sup>

Thus capitalism, in its decline, offers higher standards to the few and lower standards to the many! In Germany, where capitalist decline is most conspicuous, there is no marked decrease in the output of luxuries but a great decrease in the output of mass necessities. (The reference to "possibly very low standards" in a communist society is plain special pleading.)

Variety wants, particularly when they are stimulated artificially by high-pressure advertising and are dependent upon speculative profits, intensify the instability of production and prosperity. Another factor of instability was the increase in the output of durable consumption goods, whose buyers include workers and farmers, and which are of the optional or postponable type.\* The output of these goods falls immediately and severely as prosperity sags, accelerating cyclical breakdown and aggravating depression.

Luxury or variety buying was enormously stimulated by the profits of speculation. Speculative profits shot upward in 1925 (Table III), precisely when the output of luxury goods and durable goods began to mount most rapidly. Thus, in spite of all the talk of "prosperity is mass consumption," from 1925 on, *consumption and prosperity in-*

\* There is a similar development in England and all more highly industrial countries. "The demand for goods satisfying secondary needs . . . must increase the difficulty of balancing consumption and productive capacity. . . . Instability of demand through causes of this kind is associated with rising incomes rather than with incomes at a higher level. . . . *But there seems no great possibility of a continuous rise in income.*" G. C. Allen, *British Industries and Their Organization* (1933), pp. 288-89. These are the desperate economics of the decline of capitalism. Stationary mass incomes and economic stagnation, lower mass standards of living, are to "assure" the stability of production!

TABLE III

*Growth of Speculative Profits, 1923-29*

YEAR	SPECULATIVE PROFITS	INDEX	INDEX	INDEX
	AMOUNT (millions)		DIVIDENDS -INTEREST	WAGES
1923	\$1,172	100.0	100.0	100.0
1924	1,513	129.2	103.8	101.3
1925	2,932	250.6	117.5	107.2
1926	2,378	203.2	132.6	113.7
1927	2,894	247.4	144.1	114.6
1928	4,807	410.8	150.8	112.4
1929	4,684	400.3	177.2	*

\* Not available.

*Source:* Speculative profits—computed from Bureau of Internal Revenue, *Statistics of Income* for the respective years. Speculative profits are realized profits reported by income-taxpayers from sale of stocks, bonds, and real estate, and capital net gains from sale of assets held more than two years. Speculative profits of banks and other corporations, which helped to swell dividends, are not included. While capital gains are not directly speculative profits, they mainly are indirectly, as capital gains are largest and most realized upon when values are inflated by speculation.

*creasingly depended on the artificial purchasing power created by instalment credit and speculative profits.*

The upflare of stock-market speculation was preceded in 1923-24 by speculation in real estate, particularly the Florida "boom," capitalizing urban growth and greatly inflating values. (Inflation of land values, which goes on continuously, is partly responsible for the miserable housing of the workers.) Stock speculation rose in 1925 and surged upward in 1928-29, when speculative profits were four times those of 1923. For the seven years 1923-29, speculative profits amounted to \$20,380 million. They rose five times as much as dividend and interest payments and twenty times as much as wages. "Having no origin in the manufacture or sale of goods or services, having no immediate purpose to produce goods or services, speculative profits may properly be designated as artificial increments to income. In the period 1927 to 1929 they served to keep consumer demand ahead of production. . . . A potential source of spendable income so vast as this would not need to be drawn upon to more than one-fourth of its maximum capacity to provide under stable price conditions an addition to consumer purchasing power unprecedented for so short a period. . . . Speculators usually regarded profits as definitely so much 'money made,' and governed their spendings accordingly. . . . The

inference is exceedingly strong that the major influence prolonging the last prosperity through its final two years was the enormous stream of purchasing power coming from the security markets."<sup>14</sup>

Security speculation was never so frenzied. Prices of industrial common stocks rose an average of 19.4% yearly in 1922-29 compared with 2.8% in 1901-13; the "values" of stocks on the New York Stock Exchange rose from \$38,500 million on January 1, 1927 to \$59,330 million on October 1, 1928 and to \$89,670 million on September 1, 1929, a gain of \$40,000 million after deducting new issues.<sup>15</sup> Speculative profits reported by income-taxpayers rose from \$2,311 million in 1918-20 to \$12,385 million in 1927-29. If to brokers' loans on the New York Exchange, which rose from \$3,219 million on April 30, 1926 to \$8,549 million on September 30, 1929, are added margins, the total tied up in speculation at its peak was over \$11,500 million, and over \$15,000 million if all stock exchanges are included. The commissions of brokers of the New York Exchange in 1928 amounted to over \$400 million, or an average of \$365,000 for each of the 1,100 members<sup>16</sup> (in addition to speculative profits of their own). Speculation was a major industry. Banks and other financial interests tied up with the speculative fraternity easily beat down the mild efforts to "normalize" speculation. "The sky's the limit!" Leading stocks sold at from twenty-one to forty-four times their earnings.<sup>17</sup> Stocks sold at yields of less than 3% or 1% or nothing—discounting not only the future but eternity itself.

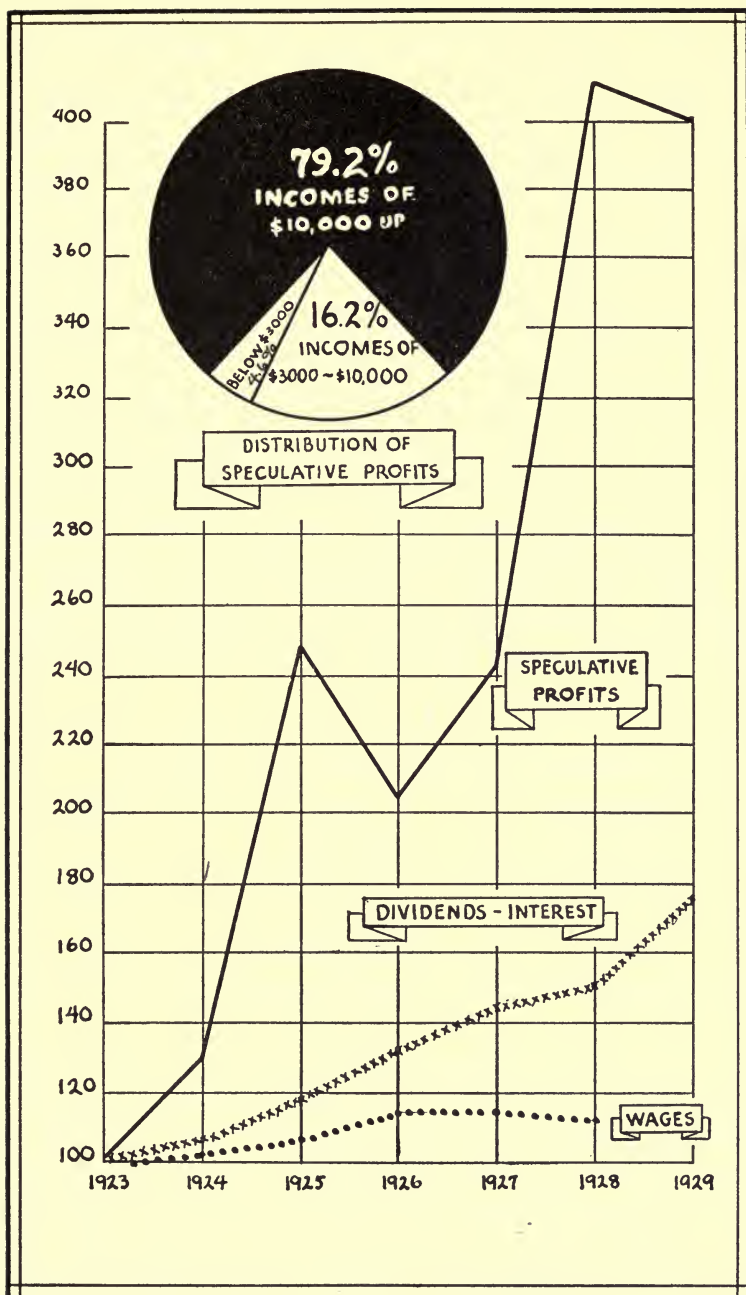
The speculative fever was inflamed by manipulation, trickery, and downright swindle, by all the institutional arrangements of capitalism. . . . Investment "analysts" advised: "There are laws governing investment and speculation just as there are laws governing the universe. Conform to these laws and you reap just rewards. Ignore them, either wilfully or through ignorance, and you lose." . . . Halsey, Stuart and Company hired at \$50 weekly a University of Chicago professor to act as Old Counselor in their radio hour, *to broadcast material prepared by the brokerage firm*.<sup>18</sup> . . . Executives of banks and other corporations formed pools in the stocks of their own concerns. . . . Corporations split up stocks to inflame the public's speculative hopes. . . . A flood of wholly speculative security issues was unloosed. . . . Scores of "trading companies," disguised as investment trusts, were organized to speculate in stocks. . . . A whole series of mergers promoted speculative purposes. . . . Investment trusts, practically nonexistent in 1925 but whose resources by 1929 exceeded \$3,000 million,<sup>19</sup> inflamed the speculative fever by their rapid expansion, their purchase of stocks and issuance of new securities, their buying on "dips"



in the market, their absorption of new speculative issues, and their connection with brokerage houses. . . . Speculation yielded higher profits than production; corporations whose surplus rose greatly, much of it in cash, placed billions in brokers' loans. . . . European money flowed into American speculative markets; French speculators "cleaned up" \$307,000,000 in fifteen months in 1928-29.<sup>20</sup> . . . Banks manufactured speculative credit with the abandon of bankrupt governments issuing paper money, while their security affiliates speculated on a large scale; speculation and credit are linked together, an inseparable part of capitalist accumulation. . . . The speculative fever was inflamed by the Coolidge-Hoover administrations, and particularly by Secretary of the Treasury Andrew Mellon, with his reductions of the surtax on large incomes, his refunds of personal and corporate income-tax payments, and his influence on Federal Reserve policy. . . . It was also inflamed by vulgar economists who spoke as if speculation and its jargon are the source of all values.\* . . . One of them wrote a whole book denouncing efforts to "moderate" speculation; among other passages of cheap eloquence and worse economics was this: "With marked progress in individual industries, in an era of radical improvement in our economic life comparable to the industrial revolution, attended by singular good fortune in the expansion of foreign trade and achieving a dominant place in the firmament of international commerce and finance, with peace at home and abroad and with an administration in which the country has the greatest confidence, it is little wonder that those who buy stocks, who in terms of the economist are paying a present sum for an *infinite* series of future incomes, should be inclined to pay a rather high price."<sup>21</sup> Irving Fisher, professor of economics, a day or two before the market crash in October, 1929, said prices were not high but low, "gains are continuing into the future" and "predictions of heavy reaction find little if any foundation in fact." Several weeks after the crash he said it had created "false fear" and meant "no permanent ill effects."<sup>22</sup> . . . The "New Era" prophets rejected economic laws; after the crash, ruining the hopes of "an *infinite* series of future incomes," the economist of the Guaranty Trust Company, a Morgan bank, admitted

\* Speculators and financiers are modern medicine-men, who make a fetish of their jargon and endow it with magical powers. After two years of declining stock prices it was suggested, to end the depression, that the market vocabulary abolish such phrases as "selling climaxes," "resistance point" and "technical rally" as "tending to intensify the bearish pessimism of the financial community." See *New York Times*, November 25, 1931.





VIII. THE STAKES OF SPECULATION—1923-29.

sadly: "It is evident that economic laws have resumed their sway in important particulars"! <sup>23</sup>

The fever seized upon widening circles of speculators. This was magnified by the profiteers of prosperity, who insisted "everybody" was speculating—bootblacks, clerks, and millionaires, poor man, rich man, beggar man, thief. But millions of shares are not millions of speculators. Two New York Stock Exchange firms, doing more than 10% of the Exchange's total business, had fewer than 12,000 active margin accounts.<sup>24</sup> In 1928 (the most representative year, as there was no crash), 470,889 out of 4,070,851 income-taxpayers reported profits from the sale of stocks, bonds, and real-estate, another 27,704 reported capital net gains, and 72,829 reported speculative losses.<sup>25</sup> The total is 571,422 persons, not all of whom were necessarily active speculators, offset by others who did not report. In all probability the number of speculators was 750,000, and definitely not over 1,000,000. This in itself was an enormous increase over pre-war years. Speculation aroused get-rich-quick appetites, but the new speculators were mainly from the middle class, which was becoming larger and wealthier. The limited class character of speculation is clearly indicated in the distribution of speculative profits (Table IV). Income-taxpayers with incomes

TABLE IV

*Distribution of Speculative Profits, 1918-29*

INCOME GROUP	AMOUNT	PERCENT
Below \$3,000	\$1,387,000,000	4.6
\$3,000-\$10,000	4,920,000,000	16.2
Over \$10,000	24,064,000,000	79.2
Total	\$30,371,000,000	100.0

Source: Computed from Bureau of Internal Revenue, *Statistics of Income* for the respective years.

below \$3,000 yearly, mainly of the lower bourgeoisie, with a sprinkling of better-paid skilled workers and farmers, received only 4.6% of speculative profits. These petty speculators lost more than they gained: speculation, directly and indirectly, expropriates small savers and investors, redistributes wealth, and accelerates the concentration of capital. Speculators of the intermediate bourgeoisie or upper middle class (incomes of \$3,000 to \$10,000) "earned" substantial profits: \$4,920 million, or 16.2% of the total. But the real profits were secured by the upper bourgeoisie: a total of \$24,064 million, of which \$8,000

million was "earned" in the two years 1928-29. As in 1929 there were only 382,241 individuals reporting incomes of \$10,000 and over, not all of whom were active speculators, the gains of speculation were concentrated in a handful of people. Incomes below \$3,000 were barred from making any substantial profits, except on a fluke, because they did not have money for large-scale speculation; and most of them were plucked. A few of them made enough profits to rise to the \$5,000 class, many more rose from the \$5,000 to the \$10,000 class, while speculators with incomes of \$10,000 and over secured the largest profits and rose to the higher income classes, particularly the highest: the number of millionaires tripled, mainly as a result of accumulating speculative profits.

Speculation depends, in final analysis, upon the exploitation of the producers. The wages of the workers (and farmers' income) were depressed relatively to profits. There was a decidedly more unequal distribution and concentration of income, whose distribution favored the investing and *speculating* classes, including the new middle class of supervisory, managerial, and merchandising employees in corporate industry. According to an apologetic economist: "The demand for stocks varies directly with the surplus cash the people of the country have after they have paid all living and business expenses and the cost of ordinary construction and improvements. The stock market has been high recently because the income of the people has been large."<sup>26</sup> But what are the implications? "Surplus cash" was high not because "the income of the people" was large, but because of the unequal distribution and concentration of income; there was not much "surplus cash" among workers and farmers. If, and this is inconceivable under capitalism, the increase in the national income had gone to the lower-paid workers and poorer farmers for use in consumption, the larger incomes would have acquired no "surplus cash" with which to finance their speculative spree. Much of the money tied-up in speculation, moreover, was not new income but money secured from loans on stocks and other forms of property: an aspect of the concentration of wealth. Apologetic economists always insist on "analyzing" gross totals and general trends instead of class proportions and relatives. . . .

Speculation capitalized the rising productivity of labor and its higher yield of surplus value. It was bound up with all the results of changes in the composition of capital. The superabundance of capital simultaneously increased excess capacity and inflamed speculation. Although the general rate of profit was falling, many corporations

experienced a rising rate; speculation in their stocks affected other stocks. The falling rate of profit drove capital after the higher profits of speculation. This included corporations with a large cash surplus; their profits were augmented by the high returns on brokers' loans, nearly one-third of which was financed by corporations.

Underlying all these forces was the antagonism between production and consumption, which depressing mass consumption and breeding a superabundance of capital. Superabundant capital became more and more aggressive and adventurous in its search for investment and profits, overflowing into risky enterprises and speculation. Speculation seized upon technical changes and new industries, which were introduced planlessly, regardless of the requirements of industry as a whole. Large profits were made by simple speculative manipulation. In one case a small group bought control of the stock of a railroad and sold it to the Pennroad Corporation, a holding company of the Pennsylvania Railroad, for \$37,898,000: the profit was \$12,807,000.<sup>27</sup> The fall in the rate of profit stimulated mergers and combinations, which grew unprecedentedly in 1923-29. Mergers and combinations tried to check the fall in the rate of profit by control of production and prices; but as they were enormously overcapitalized and increased excess capacity, the final result was to strengthen the tendency of the rate of profit to fall. Mergers and combination became the objects of speculation; they yielded huge promoter's profits and inflamed speculative hopes.

Monopolist combinations interlock with the great banks; there is a fusion of financial and industrial capital. The financial oligarchy strengthens its control over industry. Ownership increasingly becomes a mass of paper claims upon production and income, the means and objects of speculation, creating the illusion that paper values are the source of all wealth. In the epoch of monopoly capitalism, which in 1923-29 consolidated its hegemony in the United States and is bound up with the decline of capitalism, speculation becomes more active. The financial oligarchy operates with the mass of paper claims and increasingly subordinates the production of goods to the production of speculative profits. It subjects whole industries to predatory speculation and plunder (Insull, Kreuger). Where the profits of non-financial corporations were only 14% higher in 1929 than in 1923, the profits of financial corporations were 177% higher. The financial oligarchy is necessarily and intimately identified with the banks and their financing of speculation, with the stock exchanges, with all the speculative and adventurous aspects of capitalist enterprise. Through the export of

capital, a means of checking the fall in the rate of profit, speculation becomes international, encouraged by the financial overlords of monopoly capitalism.

Speculative profits, although they are an artificial creation of income, constitute real claims upon production and goods, upon the labor of the workers and farmers. In the final outcome, when inflated values crash, past speculative profits become present and future losses, and result in a restriction of consumption. But before the crash, speculative profits promote prosperity to the extent that they are spent on consumption goods (and services). Speculation, however, simultaneously aggravates the instability of prosperity and of capitalist production. In this, speculation resembles excess capacity, which as it grows stimulates the demand for capital goods and thus promotes prosperity, although it also contributes to the ultimate breakdown of prosperity because it intensifies competition, lowers the rate of profit, and eventually limits the demand for capital goods. Primarily an effect, speculation reacts and becomes itself a cause. By inflating values, speculation puts pressure on corporate managements to raise profits, and tends to increase competition, excess capacity, and overproduction. Speculation encourages risky enterprises, augments the concentration of income, strengthens the adventurous character of finance capital, and makes the unstable equilibrium of capitalist prosperity constantly more unstable because of an increasing dependence upon luxury production.



## The Onset of Crisis and Depression

THE antagonism between production and consumption is the basic cause of economic instability, and of crises and depressions. It results from the tendency toward an absolute exploitation of the workers, the increasing production of surplus value, and an absolute development of production while simultaneously limiting consumption. But the antagonism is continuous, permanent. How is an equilibrium achieved and maintained? Primarily by an increasing output and absorption of capital goods. These are the outlines of the movement:

1. The production and absorption of capital goods directly promotes the accumulation of capital:

*a.* It converts realized surplus value, profits, into capital, whose accumulation is basic in capitalist production.

*b.* It yields new profits, which are investible and become capital because of the increasing output and absorption of capital goods.

2. The output of capital goods indirectly promotes consumption:

*a.* Wages are distributed, and are spent mainly on consumption goods.

*b.* A part of salaries and profits is similarly spent.

The consumer purchasing power created by the production of capital goods and spent on consumption is a net gain, as it represents no output of competing consumption goods. Thus the capital goods industries contribute to the sustenance of the consumption goods industries. The antagonism between production and consumption is temporarily overcome.

3. The output of consumption goods is active and profitable:

*a.* Wages are distributed, and spent mainly on consumption goods.

*b.* A part of salaries and profits is similarly spent.

*c.* Another part of the profits is invested and becomes capital because of the increasing output and absorption of capital goods, either in the form of capital goods to produce other capital goods or capital goods to produce consumption goods (or services).

Thus the reaction of one department of industry upon the other creates an increasing production in which the primary factor is the output of capital goods. These goods give profits concrete forms,

they embody capitalist ownership and claims to income. Upon these forms depend other forms of capital. While creating consumer purchasing power (wages, part of salaries and profits), the output of capital goods makes no direct demands upon such purchasing power. Demands are made only eventually, when the new capital goods begin to function as productive equipment. Thus pressure upon markets is lessened and an equilibrium is temporarily maintained between production and consumption. There are other factors in the equilibrium, but the output of capital goods is fundamental.

Meanwhile speculation flourishes because profits are high. This increases the output of luxury or variety goods, distributing wages and creating demands for capital goods.

The equilibrium is temporary, is eventually shattered, because of its own underlying causes. One part of capital goods represents consumption of which the workers are deprived. When new capital goods begin to produce there arises an accumulating insufficiency of buyers for their output (and the output of older capital goods). The lag of wages behind profits, a stimulus to the accumulation of capital and the output of capital goods, simultaneously limits the conditions of consumption. New capital goods represent an increase in the productivity of labor and in the scale of production, and a decrease in relative wages, while the output of commodities grows. Excess capacity, overproduction, and competition force down the rate of profit. This for a time promotes prosperity as it means new investment, *i.e.*, creates new demands for capital goods to overcome the fall in the rate of profit. More wages are distributed, more capital absorbed. But as the new capital goods become "procreative," the forces of production become greater, the conditions of consumption relatively more limited. The equilibrium begins to totter. A minor cyclical depression appears, as in 1927, when the rate of profit in manufactures fell from 12.1 to 10.2 on fixed capital and from 7.1 to 5.5 on total capital, a fall of 15.7% and 22.6% respectively. While not disastrous, the fall was threatening. It stimulated efforts to raise profits by increasing the productivity of labor, and created new demands for capital goods. The index of machinery output rose from 153 in 1926 and 146 in 1927 to 157 in 1928 and 191 in 1929, while the index of total output of capital goods moved from 147 and 143 to 145 and 170. (The index of total capital goods was slightly lower in 1928 than in 1926 because of a lower output of transportation equipment, rising again in 1929.) In consumption goods the rise was smaller, from 125 and 124 to 130 and 131.<sup>1</sup> The upsurge of prosperity was based on the mount-

ing output of capital goods, which sustained the (smaller) rise in consumption. But this meant an enormous exertion of the productive forces—output of manufactures rose from \$41,000 million in 1927 to \$47,000 million in 1929, an unprecedented rise accompanied by a great increase in the productivity of labor. An enormous burden was placed upon all markets, both for capital goods and consumption goods, particularly as the great increase in output took place in the first six months of 1929: after June production decreased. While the rate of profit and even wages rose slightly,\* this was bound up with the conditions of approaching cyclical breakdown. For the rise in the rate of profit and in wages was the temporary result of an absolute exertion of the productive forces which set in motion:

1. An overproduction of capital goods (including construction):

a. Demand and output both fell as the consumption goods industries, their productive powers enormously augmented and markets limited, restricted their orders for capital goods.

b. Employment and wages fell among capital goods workers, lessening demand for consumption goods (and services), restricting the creation, by capital goods industries, of that consumer purchasing power which sustains a high level of output in the industries producing consumption goods.

2. An overproduction of consumption goods:

a. The overproduction latent in excess capacity became actual in terms of limited markets (particularly durable consumption goods) as accumulated capital goods spawned a mass of new commodities.

b. This condition was aggravated by unemployment and smaller

\* "It is purely a tautology to say that crises are caused by the scarcity of solvent consumers, or of a paying consumption. The capitalist system does not know of any other modes of consumption but a paying one, except that of the pauper or of the 'thief.' If any commodities are unsalable, it means that no solvent purchasers have been found for them. But if one were to attempt to clothe this tautology with a semblance of profounder justification by saying that the working class receive too small a portion of their own product, and the evil would be remedied by giving them a larger share of it, or raising their wages, we should reply that crises are precisely always preceded by a period in which wages rise generally and the working class actually get a larger share of the annual product intended for consumption. From the point of view of the advocates of 'simple' (!) common sense, such a period should rather remove a crisis. It seems, then, that capitalist production comprises certain conditions which are independent of good or bad will and permit the working class to enjoy that relative prosperity only momentarily, and at that always as a harbinger of a crisis." Karl Marx, *Capital*. v. II, p. 476. Marx adds: "Advocates of the theory of crises of Rodbertus are requested to make a note of this." And we might add the American advocates of the "policy of high wages"!

payrolls in capital goods industries, lowering mass purchasing power and consumption.

c. Consumption goods industries began to retrench; workers were fired or wages cut or both, again lowering mass purchasing power and consumption.

d. The decrease in industrial and speculative profits (stock values crashed) lessened demands upon the luxury industries, which retrenched on employment and wages, lowering mass purchasing power and consumption.

e. These developments depressed the demand for capital goods (including construction), whose output moved sharply downward, again lowering wages, mass purchasing power, and consumption.

3. A decline in industry as a whole:

a. The crisis aggravated the disproportions between one industry and another and within single industries, and created new disproportions which accelerated the slump in production.

b. Speculative or risky enterprises (all industry had become increasingly speculative) were easily upset and aggravated the upset in the more "sober" industries.

c. There was a sharp and steady fall in the activity of the industries producing materials (raw and semi-finished).\*

d. The slump in industry as a whole sharpened the "crisis" in credit, prices, and other monetary factors: these the bourgeois economist considers decisive, but they are simply effects reacting upon their cause.

Overproduction appeared primarily in the industries which had been the major sustaining factors in prosperity:

The output of machinery began to fall in June, 1929; new orders

\* The overproduction of raw materials was an important factor in the breakdown of prosperity, particularly on an international scale. In most raw materials the ratio of world visible supplies to consumption rose sharply between 1923 and 1929, and still more sharply after the crisis. (Robert F. Martin, "World Stocks, Prices and Controls of Foodstuffs and Raw Materials," *Harvard Business Review*, July, 1932, pp. 437-40.) This was a result of uncontrolled production, excess capacity, and ruthless competition, and of the capitalist exploitation of agriculture in general and of agrarian countries in particular. The buying power of countries producing raw materials was severely restricted by the disastrous fall in demand and prices. There was an unusually large slump in the American export of goods and a total cessation of the export of capital, two of the important factors in prosperity. For several years before the crisis the export of goods was practically at a standstill while the export of capital had become primarily an export of interest, which strengthened the downward pressure on the rate of profit of excess capacity and surplus capital, increased the instability of prosperity, and contributed to the coming of crisis and depression.



for machine tools and foundry equipment had fallen 50% by the end of the year, while employment in the machine industries as a whole fell nearly 10%.

The output of automobiles began to fall in July and had fallen 57% by the end of the year; the output of rubber tires and tubes fell 51%.

Construction began to fall in August and had fallen 52% by the end of the year.

The output of iron and steel began to fall in July and had fallen 42% by the end of the year.

By the end of 1929 the output of manufactures as a whole, which began to decline in July, had fallen 24%.<sup>2</sup>

As output in the heavy industries producing capital goods and materials fell, it restricted the creation of consumer purchasing power among the workers and thus lessened demand and output in the consumption goods industries.\* To a certain extent the fall in the output of machinery was retarded, because enterprises made efforts to overcome the falling rate of profit by again increasing the productivity of labor with more efficient equipment. But these efforts, successful in a minor depression, aggravate conditions in the midst of a developing major depression, when markets break down precipitously and extensively. Now the rate of profit fell disastrously—from 13.9 on fixed capital and 7.5 on total capital in 1929 to 3.0 and 1.7 in 1930, a decrease of 78.4% and 77.3% respectively. With the onrush of the crisis the output of capital goods fell more than that of other goods, and much more than in the 1920–22 depression. In 1932 the output of machine tools was 92.5% lower than in 1929, of foundry equipment 82% lower, of woodworking machinery 96% lower (the decrease in construction was equally great); inability to make profits and convert realized profits into capital led to a drop in investment from \$15,000 million in 1929 to \$3,000 million in 1932.<sup>3</sup> Prosperity depends upon the production of profit and its conversion into capital, a process which determines whether the workers may work and live.

\* "The excess capacity always present in such industries encourages the production of more goods than the market will absorb at any price, and overproduction results. In this manner the peak of production is driven ever upward, dealers' stocks begin to mount as business recedes, and when the slump comes it is much more severe because of almost complete shutdown of production. This is what happened to the passenger car business, and the same overproduction, followed by collapse of production, took place in other limited industries." W. W. Hay, "Manufacture of New Products an Escape from Effects of Saturated Markets," *Annalist*, December 12, 1930, p. 988.



It was a crisis of overproduction in terms of the limited class conditions of consumption. In the words of Marx: "If it is said that there is no general overproduction, but that a disproportion grows up between various lines of production, then this is tantamount to saying that within capitalist production, the proportionality of the individual lines of production is brought about through a continual process of disproportionality, that is, the interrelations of production as a whole enforce themselves as a blind law upon the agents of production instead of having brought the productive process under their common control as a law understood by the social mind. . . . If it is said that overproduction is only relative, then the statement is correct; but the entire mode of production is only a relative one, whose barriers are not absolute, but have absoluteness in so far as it is capitalist. Otherwise how could there be a lack of demand for the very commodities which the mass of the people want? . . . All these objections to the obvious phenomena of overproduction (phenomena which do not pay any attention to these objections) amount to this, that the barriers of capitalist production are not absolute barriers of production itself and therefore no barriers of this specific, capitalist production. But the contradiction of this capitalist mode of production consists precisely in its tendency to an absolute development of the productive forces, a development which comes continually in conflict with the specific conditions of production in which capital moves and alone can move. . . . It is not a fact that too much wealth is produced. But it is true that there is a periodical overproduction of wealth in its capitalist and self-contradictory form. . . . Capitalist production comes to a standstill at a point determined by the production and realization of profit, not by the satisfaction of social needs. . . . *The real barrier of capitalist production is capital itself.* It is the fact that capital and its self-expansion appear as the starting and closing point, as the motive and aim of production; that production is merely production for *capital*, and not the means of production mere means for an ever-expanding system of the life process, for the benefit of the *society* of producers."<sup>4</sup>

The contradictory forces set in motion by the antagonism between production and consumption are aggravated by other factors, including monetary factors. But these monetary factors are not primary, they are simply effects which react upon the fundamental productive relations. Irving Fisher insists that crises are a result of fluctuations in prices caused by changes in the value of money; that crises can be avoided if there is no change in the general level of prices, wholly possible if the "circulation of goods and the circulation of money . . .

should keep going at the same even pace . . . or both streams grow greater *at the same rate* or grow less *at the same rate*.”<sup>5</sup> This is theoretically and historically wrong. Crises and depressions have been preceded by constant prices (1857), by falling prices (1873, 1893), by rising prices (1907, 1920), and again by constant prices (1929). Fluctuations in prices are a factor of instability in the measure that they express and react upon underlying economic forces. They do aggravate disproportions. But these disproportions *always* develop: price movements merely affect the relation of one disproportion to another and the combinations in which they appear.

Falling prices force efforts to raise profits by an increase in the productivity of labor. But this results in a higher composition of capital, lower relative wages (real wages may rise), greater excess capacity, aggravated competition, a falling rate of profit, speculation, and a drive toward overproduction under conditions of restricted mass purchasing power and consumption.

Rising prices increase profits, although much of the increase is fictitious and depends for its full realization upon lower prices to come. But rising prices negate one of the fundamentals of capitalism, the urge to produce and sell more abundantly and cheaply. Rising prices and profits lower real wages (the productivity of labor rises, if not much), redistribute income and purchasing power, encourage speculation, and restrict mass consumption. The rate of profit tends to rise, but falls again as the crisis develops. Excess capacity rises primarily because markets are restricted by higher prices. Production may be stationary or fall but overproduction develop in terms of rising prices and the falling real value of mass incomes.

In both cases there are disproportions, although the relations and combinations vary. And in both cases the basic disproportion is the maladjustment between production and consumption.

But constant prices are no way out. There was a practically constant price level in 1925–29. Irving Fisher considered this constancy, which he attributed to the “manipulations” of the Federal Reserve Board, a guarantee of continuing prosperity. The outcome was the greatest of all cyclical breakdowns. For the constant price level was itself a factor of instability. Constant prices contributed to an unusual rise in profits because of the great increase in the productivity of labor. This temporarily aided prosperity, under the prevailing conditions, as it stimulated the output and absorption of capital goods. But eventually constant prices hastened the coming of the crisis because they restricted purchasing power and consumption, while fall-

ing prices might temporarily have postponed the crisis by increasing consumption. The constant price level was accompanied by rising productivity and profits, practically stationary real wages, accelerated accumulation, and changes in the composition of capital, more excess capacity, a falling rate of profit, aggravated competition, frenzied speculation, and an increasing production within the limits of restricted mass purchasing power and consumption. Prosperity crashed into depression.

Prices affect the demand for capital goods, although other factors are more important. Rising prices may limit demand and thus weaken prosperity by limiting the increase in the output and absorption of capital goods. Falling prices may stimulate demand and hasten the overproduction of capital goods and the breakdown of prosperity. Either one or the other may result from constant prices, depending upon the level of prosperity. But whatever the particular combination of factors, the moment must come when the output and absorption of capital goods begins to fall because consumption has not kept pace with production.

Thus prices act within the limits of the underlying economic factors: these are primary. Cyclical breakdown develops under conditions of falling, rising, and constant prices. The disastrous fall in prices *after* a crisis, aggravating the cyclical breakdown and depression, is itself an effect of the crisis—an effect which becomes a major cause only in the analyses of the bourgeois economists.

In the pre-1929 era of prosperity everlasting, a whole school of economists, accepting the temporary and incidental as permanent and fundamental, stressed the importance of constant prices, of stabilization. In spite of the demonstration that stable prices do not avert cyclical breakdown, the theory reappears in the proposals of the NRA, and of state capitalism, in general to “fix” prices and “stabilize” the value of money. But the needs of capitalist production are identified with higher output and lower prices, although these simultaneously torment and upset it. Prices may be stable, but not productivity. Profits rise disproportionately. The benefits of improved productive efficiency are not passed on in the form of lower prices. Real wages are adversely affected, as they generally rise only in periods of falling prices. Instability is an element of capitalist growth. Stabilization, along with its twin, the restriction of production, is an element of capitalist decline and stagnation.

The monetary approach appears more substantial in the arguments of John Maynard Keynes, the economist of capitalism *in extremis*.

Accepting the necessity of stabilization, he incorporates it in a larger analysis which recognizes that prosperity depends upon the output of capital goods, upon the increase in profitable investment. But he stresses the monetary aspects and makes the output of capital goods a function of the rate of interest. "It is," he says, "a large volume of saving which does *not* lead to a correspondingly large volume of investment (not one which *does*) which is the root of the trouble"; the slump in 1929 was "initially engendered . . . by the deficiency of current investment relatively to saving."<sup>6</sup> The high market-rate of interest discouraged new investment in capital goods, savings exceeded investment, and the resulting decline in the output of capital goods produced the crisis and depression. If the market-rate of interest had fallen to the level of the natural-rate, *i.e.*, a rate making it profitable for enterprise to borrow money to buy new capital goods, there would have been no crisis and depression. The assumption is that, if there is no divergence between the "market-rate" and the "natural-rate" of interest, and investment equals savings, capitalist production can *uninterruptedly* absorb a constantly greater output of capital goods and prosperity flourish undisturbed. This ignores the crucial factors:

In 1928-29 there was an upsurge in new investment and in the output of capital goods *regardless of the prevailing interest rate*: buyers of new stock issues were plentiful and corporate surplus ample.

Increasing investment itself and the constantly greater output of capital goods, *not* the interest rate, tormented capitalist enterprise because of accumulating excess capacity, saturated markets, aggravated competition, and the tendency of the rate of profit to fall, *a fall independent of any rise in the interest rate.*

The increasing output of capital goods *was (and always is!) accompanied by an accumulating deficiency in consumption.*

While the immediate cause of the breakdown of prosperity was the deficiency in the output of capital goods, *the underlying cause was the deficiency in consumption.*

Oversaving is a factor in the cyclical process. Not because it creates a deficiency in capital investment (and production) but because it creates a deficiency in consumption by diverting to investment income which should go into consumption. Keynes, who slights consumption, does not consider "oversaving" that part of invested savings identified with excess capacity. Yet this part and the part which is not invested at all both tend eventually to create a deficiency in consumption. Assume that a "managed currency" so manipulates the interest rate that investment comes to equal savings. Good. But what



of the deficiency in consumption, of a greatly increasing output of consumption goods in the midst of limited markets?

New investment, an increasing output of capital goods, is not primarily a function of the rate of interest. It is a function of industry's capacity to absorb new capital goods, dispose of consumption goods at profitable prices, and yield a satisfactory rate of profit. Keynes makes a satisfactory rate of profit depend upon the interest rate, investment depend upon the proportion of the expected rate of profit to the current rate of interest. Actually it is, save in exceptional cases, the reverse: the interest rate becomes unsatisfactory or "unprofitable" after the rate of profit itself falls. The rate of profit, which rose slightly early in 1929, began to fall as the crisis approached, and fell disastrously after the crisis. It fell disastrously because of the collapse of demand, prices, and production, not because of the divergence between the rate of profit and the rate of interest. The divergence was itself an effect of the crisis and the fall in the rate of profit.

The monetary approach is responsible for another error. This is Keynes' insistence that speculation contributed to the cyclical breakdown because "the 'speculative' borrowers were borrowing not for investment in new productive enterprise, but in order to participate in the feverish 'bull' movement,"<sup>7</sup> thus increasing the deficiency in investment. On the contrary, speculation contributed to postponement of the crisis by encouraging the luxury industries and by preventing an earlier overproduction of capital goods. Most speculative profits are either re-employed in the market or are spent; the part which may be invested in productive enterprises is smaller than the cash and credit tied up in speculation. The "immobilization" of a part of superabundant capital by speculation performs the same function in keeping prosperity going that is performed by destruction and depreciation of capital and waste in general. But while speculation aided prosperity it simultaneously aggravated the instability of prosperity, sharpened the crisis when it came, and deepened the depression.

Of the depression and recovery, Keynes writes: "Capital goods will not be produced on a large scale unless the producers of such goods are making a profit. Upon what do the profits of the producers of capital goods depend? They depend upon whether the public prefers to keep its savings liquid in the shape of money or the equivalent or use them to buy capital goods or the equivalent. . . . The fundamental cause of the trouble is the lack of new enterprise due to an unsatisfactory market for capital investment. Lenders were, and are, asking higher terms for loans than new enterprise can afford."<sup>8</sup>



That is clearly an effect, however, not a cause. Where production and consumption are prostrate, as in a major depression, any large investment in new capital goods may be unprofitable no matter how low the interest rate. It might even be unprofitable if no interest were asked but only safety. For an unusually severe depression is preceded by an unusually large output of capital goods. There is an unusual overdevelopment of plant equipment, and new investment is practically limited to unpostponable replacements, considerably more efficient equipment which might yield competitive advantages to a particular enterprise, and equipment to produce new goods which meet no competition and whose market is assured. Depression is finally overcome, and new investment again becomes profitable, primarily by destruction and depreciation of existing capitals, the piling up of unpostponable replacements, and the development of new industries, thus setting in motion a demand for capital goods and a rise in the rate of profit. At this stage the rate of interest may become an accelerating or retarding factor. But the fundamental factors are the rate of profit itself and the capacity of industry to absorb an increasing output of capital goods. So great was the overdevelopment of productive enterprise in the United States that the government's efforts to "ease" credit—through the loans, or rather grants, of the Reconstruction Finance Corporation, and the pressure on industry to borrow and on banks to lend—yielded slight results because industry was tormented by overdevelopment of capacity and lack of markets, not by lack of credit or capital.\*

The admission by many bourgeois economists, among them Keynes, that prosperity depends upon capital investment is correct. It is, however, one-sided because it excludes, wholly or in part, the factor of

\* Keynes, "Causes of the World Depression," *Forum*, January, 1931, p. 24, sees this overdevelopment of enterprise without appreciating its significance: "In the United States the vast scale on which new capital enterprise has been undertaken in the last five years has somewhat exhausted for the time being—at any rate so long as the atmosphere of business depression continues—the profitable opportunities for further enterprise." Where art thou *now*, O rate of interest! In Germany, in 1932, the government of Chancellor Brüning and the Reichsbank lowered interest rates to stimulate industry. Failure was attributed to the fact that only short-time borrowing was affected. But failure also marked the efforts of the government of Chancellor von Papen, which tried to stimulate expenditures on capital goods by giving industry a practical subsidy of 750 million marks *at no interest* (in the form of certificates discountable for cash and acceptable some years later in payment of taxes). Enterprises receiving the money used it to pay off debts, and there was no revival in the output of capital goods. Gerhard Colm, "Why the 'Papen Plan' for Economic Recovery Failed," *Social Research*, February, 1934, p. 93.

consumption. Capitalist prosperity depends upon an increasing output and absorption of capital goods. But this depends in final analysis upon the capacity of industry profitably to dispose of an increasing output of consumption goods. The constant clash of one with the other is inescapable and decisive. Because he ignores this, Keynes becomes entangled (much like the money cranks) in proposals for monetary manipulations to revive and maintain prosperity. All such proposals emphasize the secondary factors of exchange, not the primary factors of production. While exchange reacts upon production, the relations of exchange are determined by the relations of production. If exchange is emphasized the causes of cycles appear either bewilderingly complex, where the economist is "scientific," or extremely simple, where the economist is "practical." In either case effects are transformed into causes. Thus an effect, the deficiency in investment, becomes with Keynes, who is both "scientific" and "practical," *the* cause of cyclical breakdown. If it is proposed to prevent crises or save capitalism, effects *must* become causes: for it is possible to tinker only with effects, not with causes. Prosperity depends upon capital investment. This means that capitalism is a profit economy. No profit—no prosperity. This in turn creates an antagonism between production and consumption: capitalism is unable to develop freely and fully the conditions of consumption. The conclusion is inevitable: crises and depressions are inherent in the capitalist relations of production, they can be avoided only by the abolition of those relations. But this conclusion is either evaded or openly rejected by the bourgeois economists. Even where the conclusion arises logically out of their own analysis, if consistently pursued, they fly off at a tangent and offer "cures" based on secondary factors. They prefer, in theory and practice, to cling to capitalism.

In every cycle, in prosperity, crisis, and depression, there are varying combinations of the secondary factors. An analysis which emphasizes these factors makes every cycle appear unique in itself. This is wrong. For there are primary factors underlying and determining the cyclical process. These factors are always the same. The secondary factors may combine differently in the unstable equilibrium of capitalist prosperity. But the primary factor is the accumulation of capital, an increasing output and absorption of capital goods. The secondary factors may combine differently to produce the onset of crisis and depression. But the primary factor is the deficiency in consumption. The inescapable antagonism between production and consumption is decisive.

Thus the conclusion becomes inescapable that capitalist production is strangled by its own enormous productive forces, which are developed beyond the social forces of consumption. When industry tends to use all its forces, the result is overproduction and crisis. Even then, however, only a part of the productive forces is utilized. Yet this sort of thing is still taught in American colleges: "The one great hope of mankind for greater abundance of goods lies in removing ineffectiveness of labor as a cause of scarcity, or, in other words, in improving the methods of production."<sup>9</sup> But labor is *not* ineffective. The methods of production *are* improved. There *is* abundance. These conditions are, however, transformed into causes of scarcity, both in prosperity and depression. Capitalist industry is menaced by its power to provide abundance—by the inexorable drive to produce more cheaply and abundantly, by excess capacity, by overproduction. Abundance creates scarcity because abundance becomes relatively unprofitable. Thus under capitalism, production appears as a malevolent fate: man is enslaved and tormented by his own material creations.\*

The productivity which torments capitalist industry—and the masses—is a result of the objective socialization of production. Capital, materials, and labor are concentrated in large-scale enterprises, forms of social property, multiplying the productivity of labor. All the powers of society work toward improving the social methods of production. More and more, industry assumes institutional forms: ownership is separated from management and control, the direction of industry becomes collective. Only ownership and appropriation are individual (although ownership itself acquires measurably social forms in corporate enterprise). This contradiction is the basis of the antagonism between production and consumption. The antagonism can be ended only by the socialization of ownership, appropriation, and consumption: by making consumption, not accumulation, the aim of production. Man, the worker, must produce to consume.

\* "Things cannot be otherwise in a mode of production where the worker exists to promote the expansion of existing values, as contrasted with a mode of production where wealth exists to promote the developmental needs of the worker. Just as, in the sphere of religion, man is dominated by the creature of his own brain, so in the sphere of capitalist production, he is dominated by the creature of his own hand." Marx, *Capital*, v. I, p. 685.

## Production and Consumption: Capitalist Decline

**I**F capitalist production and prosperity depend upon an increasing output and absorption of capital goods, as Keynes and other bourgeois economists admit, it follows that there are limits to the economic development of capitalism, to the accumulation of capital.

These limits result periodically in crises and depressions. Cyclical breakdowns express an overdevelopment of capital equipment, which lessens the output and absorption of capital goods and checks the expansion of industry. In the epoch of the upswing of capitalism the limits were only relative, as overdevelopment of capital equipment was relative and temporary. Depression, overcome by the action of cyclical forces, was succeeded by a new upsurge of prosperity resulting from new and larger demands for capital goods, because of the working of the long-time factors of expansion. But as these factors approach exhaustion, the overdevelopment of capital equipment begins to assume absolute and permanent forms. Industry is now unable to absorb an increasing output of capital goods: the limits to the development of capitalist production and prosperity become absolute.

At the same time, and necessarily, the limits to the development of consumption become absolute. An increase in consumption depends upon a still larger increase in the output of capital goods. As this output rose in the epoch of the upswing of capitalism, the limits upon consumption were only relative. Overdevelopment of capital equipment was accompanied and made possible by underdevelopment of consumption, the final cause of crises and depressions; but there *was* a rise in consumption. As, however, the capacity of industry to absorb new capital goods begins to decrease, consumption must remain stationary or fall: the limits to the development of capitalist production and prosperity become absolute.

Thus the movement of production and consumption brings about a permanent crisis in production and prosperity. The crisis can be solved only by intensive development of the social forces of consumption. As, under capitalist conditions, however, increasing consumption



is a by-product of an increasing output of capital goods, which now tends to decrease, the crisis is insoluble. This is the decline of capitalism.

But why cannot capitalist production develop the forces of consumption? They *can* and *must* be developed, insist many bourgeois economists, whose discussion of the problem of consumption is growing. Attention is forced upon this problem because the productive forces are now so great, the antagonism between production and consumption so apparent. Nor is this merely a result of the depression: consumption was stressed in the pre-1929 mythology of prosperity. The discussion of consumption, wherein two groups may be distinguished, is wholly inadequate, as it is entangled in all the contradictory relations of production which make the problem insoluble under capitalism.

One group insists that the problem of consumption can be solved if the monetary mechanism is manipulated to force prices to fall and permit absorption of an increasing output of goods. Or if marketing, including advertising, is made more efficient. Or if "consumer credit" becomes as general as producer credit and "finances" consumption. Or if distribution is "rationalized" by still greater growth of the chain stores. These proposals may all be dismissed without much consideration: they emphasize secondary factors of exchange and not the primary factors of production and its relations. The proposals would tend, moreover, to create more disproportions. Falling prices are a source of instability, increase consumption only temporarily, and threaten the rate of profit. "More efficient" marketing multiplies overhead costs and the wastes of distribution. "Consumer credit" is merely a disguised form of instalment selling. The chain stores neither make distribution more rational nor increase mass purchasing power and consumption: they create new disturbing factors, increase unemployment in the distributive trades, and are associated with monopolist abuses.

Another group insists that the problem of consumption can be solved only through industry disbursing more mass purchasing power to permit more consumption. Mass production must depend upon mass consumption: only greater consumption can absorb the output of the enormously productive forces of industry. This is an approach to the real problem. But it ignores the crucial questions of how, under capitalist conditions, consumption can increase while the output of capital goods tends to decrease, and of what would happen to the rate of profit and capitalism itself if the output of consumption goods rises while the output of capital goods falls. The "consumption" econo-



mists neglect the factor of capital goods, where Keynes and others neglect the factor of consumption.

In one form or another the promise to "increase consumption" appears in all the arguments of the apologists of state capitalism. In Italy and Germany, in Britain and France, there is a mass of words and acts "in favor" of greater mass consumption: meanwhile it tends to remain stationary or fall. The National Industrial Recovery Act proclaims its aim thus: "To increase the consumption of industrial and agricultural products by increasing purchasing power."<sup>1</sup> What all the words and acts mean in practice is a concern with *markets* to absorb the output of industry and insure capitalist profits. This involves, however, a fundamental economic problem, most clearly formulated (among the apologists of Niraism) by Rexford Guy Tugwell.<sup>2</sup> His analysis is incomplete but it reveals the desperate straits of capitalist production.

The older "era of development" of the productive forces has definitely come to an end, Tugwell maintains. Unrestrained competition, while it formerly "may have been a useful economic creed," is now "the final suicide compulsion which afflicts free industry. It throttles itself by closing off its access to markets." Economic development and competition must decline.

This is both cause and effect of a new era in American capitalism: "Our economic course has carried us from the era of economic *development* to an era which confronts us with the necessity for economic *maintenance*. In this period of maintenance there is no scarcity of production. There is, in fact, a present capacity for more production than is consumable, at least under a system which shortens purchasing power while it is lengthening the capacity to produce."

In this "new era" the dominant problem is consumption. "More and more conspicuous," Tugwell insists, "is the dependence of our economic existence upon the purchasing power of the consumer—upon wages, that is, and protected prices. . . . Only a socialized industry can market its goods continuously because, until it is socialized, it cannot join in the protection of demand. . . . This era of maintenance, the era of our present and future existence . . . demands a new control, a control designed to conserve and maintain our economic existence."

The crucial point in Tugwell's argument is the contrasting of the era of *development* with the era of *maintenance*. Or, in other words, the epoch of the upswing of capitalism has been succeeded by the epoch of its decline.

What was the "era of development"? It was the era when the older industries were being mechanized, new industries arising, and new regions conquered by industrialism. This meant an *increasing* output and absorption of capital goods, an *increasing* accumulation of capital. The curve of production was *upward*.

What is the "era of maintenance"? It is the era when the older industries are all mechanized, scarcely any new industries are developing, and the industrialization of new regions is declining. The productive forces are ample, highly efficient, capable of producing more goods than the markets can absorb because consumption is limited by the social relations of capitalist production. Only to "maintain," not to increase, the existing productive forces requires a tremendous growth in mass consumption. Under these conditions the tendency is to restrict new capital goods to replacements, to "maintenance" of equipment. This means a *decreasing* output of capital goods, a *decreasing* accumulation of capital. The curve of production is *downward*.

The downward tendency of production is not something new. Its first manifestation is a decrease in the average yearly rate of industrial growth (7.6% in 1902-06, 4.6% in 1909-14 and 3.8% in 1922-29). The decrease was relative, a flattening of the upward movement. Yet that in itself is ominous, as capitalism must expand or decline: it cannot stand still. Moreover, it is significant that the flattening took place when there was an increasing output of capital goods, particularly in 1922-29. If the output tends to decrease, the downward movement of production must become absolute. And this development, as well as the economic decline with which it is identified, is inherent in the dynamics of capitalist production. . . .

While Tugwell distinguishes the two epochs of capitalism, he does not recognize the implications. It is, of course, a problem of consumption. The barriers of capitalist production can be broken down only by an upsurge of mass consumption. But the barriers are created by capitalist production itself, which *always* restricts consumption. The problem is now more acute, as the formerly relative limits imposed upon the development of consumption (and production) tend to become absolute, because of the decreasing output of capital goods. Thus, instead of making possible greater mass consumption and economic stability, the "era of maintenance" creates new disturbances and engenders a state of permanent crisis. Tugwell ignores the fundamental problem: *How, under capitalism, can consumption rise while there is a fall in the output and absorption of capital goods?*

The basic nature of this problem appears clearly in a concrete analysis of the relation of the production of capital goods to prosperity and depression (Table V). This relation is the controlling factor in all stages of capitalist production. It conditions both the upswing of capitalism and its decline.

TABLE V

*Output of Capital Goods in Prosperity and Depression, 1929-31*

	OUTPUT (millions)		WAGE- WORKERS		WAGES (millions)	
	1929	1931	1929	1931	1929	1931
<b>MANUFACTURES:</b>						
Machinery	\$6,170	\$2,800	975,000	595,000	\$1,460	\$690
Iron and Steel	5,000	2,290	615,000	420,000	965	490
Other Metal	2,500	1,000	220,000	145,000	300	165
Transport Equipment	2,280	1,100	435,000	305,000	695	415
Stone, Clay, Glass	1,155	520	220,000	115,000	300	145
Lumber Products	895	415	220,000	130,000	235	110
Total	\$18,000	\$8,125	2,685,000	1,710,000	\$3,955	\$2,015
<i>Percentage of All</i>						
Manufactures:	25.6	19.6	30.4	26.3	33.9	27.9
<b>OTHER INDUSTRIES:</b>						
Construction	\$6,190	\$3,490	1,450,000	*	\$2,400	*
Mining Products †	1,470	795	300,000	*	375	*

\* Not available.

† Includes quarries and oil wells.

Estimates include: all machinery except mechanical refrigerators, sewing machines, washing machines, incandescent lamps, radio, household electrical appliances; 70% of iron and steel; 70% of non-ferrous metals and their products; 20% of automobiles, 50% of value output of railroad repair shops, all other transportation equipment; all stone products, 50% of clay and glass; 25% of forest products; all construction; 25% of mining products (used as structural materials in capital goods or as power fuels in their production). Estimates are approximate, but with minima stressed.

Source: Computed from material in *Census of Manufactures, 1929* and the *Census preliminary reports for 1931*; *Commerce Yearbook, 1932*, v. I, p. 262; *Statistical Abstract, 1932*, pp. 686-87; W. I. King, *National Income and Its Purchasing Power*, pp. 56, 108, 132, 138.

In 1929, the gross value output of capital goods industries was \$18,000 million, or 25.6% of all manufactures. These figures contain a considerable amount of duplication, representing the value of materials. But there are no duplications in the final form of capital goods, in machinery and transportation equipment, whose value was \$8,450 million. Add \$4,190 million as the probable unduplicated value of

construction. That makes approximately \$12,640 million, an output of capital goods equal to nearly 25% of the net value (\$51,290 million) of non-agricultural goods produced in the United States in 1929.\*

In their various stages the manufacture of capital goods employed 2,685,000 workers and paid out \$3,955 million in wages, or 30.4% of all workers and 33.9% of all wages in manufactures. (There are no duplications in these figures.) Including construction and mining, the production of capital goods and their materials employed 4,435,000 workers, who received \$6,730 million in wages. Another 450,000 workers and \$700 million in wages must be added on the assumption that one-quarter of transportation is occupied in moving capital goods and their materials. Thus in 1929 the production of capital goods employed 4,885,000 workers, 31.5% of industrial workers and 17.5% of all workers, and paid out \$7,430 million in wages, 40% of industrial wages and 22.8% of all wages.† This is exclusive of probably 750,000 clerical workers receiving \$1,125 million in salaries who were similarly employed. It is also exclusive of the millions of workers in the consumption goods industries, the distributive trades, and professional occupations who are dependent upon the demand and purchasing power of capital goods workers.

The figures of output, employment, and wages clearly reveal the direct economic significance of capital goods. They have a still greater significance in the relations of capitalist production as a whole.

The output of capital goods is a fundamental factor in accumulation. It permits the conversion of profits into capital. Capital is a social relation, the private ownership of the means of production, which gives the capitalist owners the power to exploit the workers and secure an income. The workers are exploited by providing them with the instruments of labor, with capital goods. If the output of capital goods slows down, it means a decrease in the mass of workers exploited by the capitalist class and a consequent lowering of its income and wealth.

The two departments of industry, one producing capital goods, in-

\* In 1929 the net value of manufactures, less \$13,300 million of duplicated materials, was \$47,100 million. The net value of construction, less a probable \$2,000 million of materials supplied by manufactures and mining, was \$4,190 million. Thus the net value of non-agricultural goods produced was approximately \$51,290.

† The sharp difference in the percentage of workers and of wages is explained by the fact that there are millions of hired farm laborers, servants, and other groups who receive unusually low wages. In 1929, the average yearly wage for workers employed in the production of capital goods and their materials was approximately \$1,500; it was only \$1,180 for the workers as a whole.



cluding materials, and the other producing consumption goods, are interdependent. The first supplies the means of production which the second uses to produce means of consumption. Capitalists in the consumption goods industries convert their unconsumed profits into capital by investing them in capital goods to produce more consumption goods. (Some of them may invest a part of their profits in capital goods to produce more capital goods, while some of the capitalists in the capital goods industries may invest a part of their profits in capital goods to produce consumption goods.) Profits flow from the department producing consumption goods to the department producing capital goods and return in the form of "concrete" capital, of capital goods to produce more profits. From the standpoint of the individual capitalists in the two departments, only that part of their workers' output is surplus value or surplus product which represents unpaid labor. But from the standpoint of capitalist production and the capitalist class as a whole, *all* the output of workers producing capital goods is in a sense "surplus product," because the part which represents paid labor (wages) is paid for with the output of the unpaid labor (surplus means of subsistence) of workers producing consumption goods. Upon this fundamental relation is based the whole economic superstructure. If there were no output of capital goods their producers, of course, would make no profits. Still more serious, there would be no accumulation; the profits of capitalists in the consumption goods industries would have to be consumed or put into non-productive investments, becoming a burden upon industry and profits.

As long as the relation between the two departments of industry is undisturbed, production is on the upswing and prosperity prevails. There is an active accumulation of capital, the conversion of surplus value, of profit, into capital by means of an increasing output and absorption of capital goods.

But the process of accumulation simultaneously depends upon consumption and limits its development. If consumption is not increasing, the demand for capital goods must eventually fall. And accumulation tends to restrict mass purchasing power and consumption. The antagonism is overcome, for a time, and in spite of the lag of wages behind profits, because the production of capital goods sustains consumption by creating consumer purchasing power. Unlike industries producing consumption goods, the capital goods industries offer nothing for sale to consumers: their customers are capitalists,



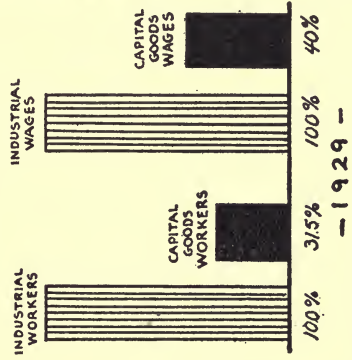
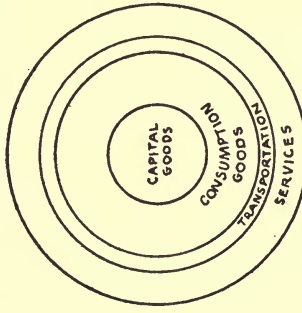
who buy and pay with profits. They make no direct demands upon the consumer purchasing power created by them.

Eventually, of course, most capital goods offer consumption goods or services for sale. But this is only eventually and conditionally true.

The greater part of construction, public works and industrial buildings, never offers any competition to the producers and sellers of consumption goods. Only a small part of construction, private dwellings, is offered for sale to consumers; another part, apartments, offers services. Transportation and electric power equipment also offer services eventually (part of their output, however, is absorbed by industry). But in all these cases the capital investment is heavy, and many years elapse before full demands are made upon consumers.

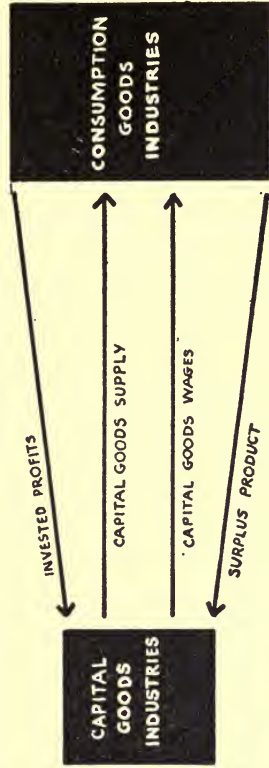
Only *one* form of capital goods, industrial machinery, throws its output upon the market for direct sale to consumers. This, however, is done gradually. For a time the new industrial machinery put into operation is offset by the production of other machinery, provided orders increase more than output.

The production of capital goods, which do not throw their output upon the market or do so only eventually, creates consumer purchasing power in the form of wages and clerical salaries (and part of other salaries and profits). Of this purchasing power, amounting in 1929 to \$8,550 million, *not one penny is spent on the output of capital goods industries*. All of the wages and clerical salaries, except minor savings and expenditures on services, *is spent on the output of consumption goods industries*. These industries, of course, create purchasing power of their own. But of this an important part represents the wages of workers producing consumption goods which are consumed by the workers who produce capital goods. If the output of capital goods falls, the workers thrown out of work lessen or cease their demands for consumption goods. The result is a decrease in the output of consumption goods and an increase in unemployment among the workers whose output was bought and consumed by the workers who formerly were engaged in the production of capital goods. This is not all. As the newly unemployed consumption goods workers lessen or cease *their* demands, there is another decrease in output and more unemployment in the consumption goods industries. Total consumer purchasing power drops much more than the mere drop in the purchasing power of capital goods workers. The relation between the two departments of industry must be adjusted on a lower level of general production. (Necessarily there is a fall also in the demand for services, including professional services.)



### THE ACCUMULATION OF CAPITAL

Profits, or realized surplus value, become capital by being invested in capital goods. Unless profits are thus convertible into capital, there is no accumulation and profit is limited to surplus product consumable by the capitalists, which limits production and employment.



### SURPLUS VALUE AND CAPITAL

The wages of capital goods workers, all of whose product becomes capital, are spent on the surplus value or product yielded by consumption goods workers. If capital goods wages move downward, the output of consumption goods falls. This reacts upon the capital goods industries. Accumulation, production, and employment are limited.

The fundamental nature of this relation appears clearly if we assume that there is *no* output of capital goods and that the industries producing consumption goods must depend exclusively upon the purchasing power they create. In this case their output, other than the part consumed by the capitalists, managerial employees, and non-workers generally, must be bought and consumed by the workers producing the consumption goods. This requires either a great rise in wages or a great fall in prices. Profits are limited to what the capitalist class can consume. There are no real profits and no conversion of these profits into capital *because they depend upon that part of consumption goods consumed by the workers producing capital goods.*

Thus the production of capital goods, with its creation of consumer purchasing power, sustains consumption and makes its increase possible. *But only as long as an increasing output and absorption of capital goods creates new purchasing power greater than the sum of prices of the additional consumption goods thrown upon the market by newly producing capital goods.*

The temporary equilibrium is eventually upset by an overproduction of both capital goods and consumption goods. Cyclical limits arise to check the further expansion of production. There is crisis, breakdown, and depression.

The crisis initially may be engendered by a restriction of the production of capital goods or of consumption goods, or of both simultaneously. But basically it is a crisis in capital goods, the demand for which falls because the consumption goods industries are over-equipped in terms of available consumer purchasing power. For, in spite of the purchasing power distributed by the capital goods industries, the lag of wages behind profits creates a deficiency in consumption. This makes it impossible to sell the mounting mass of products thrown upon the market by the consumption goods industries, whose productive powers have been greatly augmented by newly producing capital goods. As the crisis develops the output of capital goods falls much more than the output of consumption goods, the depth of the fall measuring the depth of the depression. In 1931, the output of capital goods (in manufactures) was 54.9% lower than in 1929, the output of consumption goods only 36.6% lower; employment among capital goods workers was 36.3% lower and their wages 49.1% lower, and only 21.9% and 32.6% lower among consump-

tion goods workers.\* While the proportional fall of wages in the capital goods industries was greater, the absolute fall was greater in the consumption goods industries—\$1,940 million compared with \$2,520 million. Theoretically the decrease in both employment and wages in the consumption goods industries should be larger; this does not happen because unemployed capital goods workers (and others) maintain a limited consumer demand by means of savings, loans, and charity. By 1932 the output of all forms of capital goods was 75% lower than in 1929; in addition, the output of durable consumption goods was 75% lower and of non-durable consumption goods 30% lower.<sup>3</sup>

Depression persists as long as there is a shrinkage in the consumer purchasing power of workers in the capital goods industries, which creates a still larger absolute shrinkage in the purchasing power of workers in the consumption goods industries, the distributive trades, and professional occupations. A renewed demand for capital goods is necessary to stimulate cyclical revival. While it throws no consumption goods upon the market, an increase in the output of capital goods creates purchasing power among the workers re-employed to produce them, and invigorates consumer buying. The renewed demand for capital goods usually starts with orders for replacements of equipment, eventually no longer postponable, or with orders for more efficient equipment to save labor costs, or with equipment required by a new industry. Production begins to revive.

If the demand for capital goods is sufficiently large, and if the resulting revival is accompanied by an increasing output and absorption of capital goods, the revival moves onward to recovery and prosperity.

If, however, the demand for capital goods is insufficient and does not increase, because of considerable overequipment in the older consumption goods industries and the failure of new industries to develop—in other words, because of exhaustion of the long-time factors of expansion—there can be no complete recovery and no upsurge of prosperity.

The demand for capital goods must consist of more than mere replacements. It must be an *increasing* demand. Otherwise recovery and prosperity will be limited. An increasing demand for capital goods depends upon the expansion of older industries and the develop-

\* In both departments of industry, wages decreased more than employment because of reductions in wage rates and the resort to the "stagger" system or part-time work. Both are methods of throwing the burdens of depression upon the workers.



ment of new industries. But the older industries are enormously overequipped and no new industries are developing. Hence industry lacks, and will continue to lack, the stimulus of a vigorous demand for capital goods. This explains the depth and duration of the depression. More important, it explains why capitalism is now in an "era of maintenance," why it becomes impossible to restore prosperity on any considerable scale.\*

The "era of maintenance" means that industry is no longer able to absorb an increasing output of capital goods. And this means that the conditions of depression—on a somewhat higher level, however—will be the conditions of prosperity. Employment and consumer purchasing power are restricted among capital goods workers (even if the output of capital goods is merely constant, because of improving technological efficiency and the coming of new workers into the labor market). The result is unemployment and restriction of purchasing power among consumption goods workers, and among the workers in clerical, distributive, and professional occupations. The general level of production *must* fall, resulting in a "depressed" prosperity. Permanent and absolute limits arise to the development of capitalist production. The resulting economic decline persists, as in the case of depression, as long as there is no upward movement in the output and absorption of capital goods.

Why not stimulate the output of capital goods? But this cannot be done if the consumption goods industries are overequipped, if no new industries arise, if the long-time factors of expansion are exhausted. The NRA's efforts artificially to stimulate the output of capital goods have been largely unsuccessful. Similar efforts in Germany, on a much greater scale, merely intensified the economic crisis. Nor are public works a substitute for profit-yielding capital goods. They are not an accumulation of capital. They must be paid for with public money; and whether this is done by means of loans or taxation, it imposes a burden upon industry, profits, and wages (particularly wages). There may be an increase in the export of goods and of capital, which results in capital accumulation. But the scope of this is limited, under the conditions of the world to-day, and it means imperialism.

Why not stimulate consumption? This is the obvious solution. The productive forces are highly developed. Their mere use means the abolition of unemployment and poverty. But the question is not

\* This is discussed more fully in Chapter XXIII, "Prosperity and Capitalist Decline."



whether an increase in consumption *is* possible and *would* result in permanent industrial revival. It is and it would. The question is whether capitalism *can* and *will* promote an increase in consumption *which interferes with the making of profits*. This the apologists of Niraism ignore, or they insist that higher profits and higher consumption are not mutually exclusive. In other words, they believe that the problem can be solved within the limits of capitalist relations. Thus William Green, president, American Federation of Labor, says:

"Refusal to share gains with producing workers dries up the sources of larger income for industry. There are two main channels through which workers share in the prosperity and progress of an industry: a shorter work week and higher wages as measured by buying power. . . . If workers could buy all they need and want, industries could be earning more, wages and dividends would rise. . . . Our power to produce is practically unlimited so far as the mechanics of production go. The controlling limit is the ability of consumers to buy. Here we run into a difficulty created by our failure to realize the interdependence between production and retail buying. Not only have we failed to do industry-wide and nation-wide planning for our business institutions, but the individual employer has failed to realize that the wages paid his employees constitute part of the retail market upon which his business depends. . . . Unless a much larger proportion of the returns on products goes to wage and salary workers there will not be the market for the increased output."<sup>4</sup>

That is exactly what William Green was preaching in the pre-1929 "Golden Age," when he insisted that "high wages" was the *accepted* policy of American employers. It did not work then. How can it work now? Employers would not reject shorter hours and higher wages if they really meant higher profits. In the epoch of the upswing of capitalism shorter hours and higher wages were, within limits, compatible with higher profits because of the increasing output and absorption of capital goods. That condition does not exist in the "era of maintenance." Nor is Green's theory unworkable only if there is no national planning. For planning must proceed within the orbit of *capitalist* production, whose "controlling limit" is not "the ability of the consumer to buy," but the making of profits and their realization as capital by means of an increasing output of capital goods, an increasing accumulation of capital.

If there is a definite downward tendency in the output of capital goods, three conditions are necessary to insure an increase in mass consumption:

Workers unemployable in the production of capital goods must secure employment in the industries producing consumption goods.

To absorb these workers (and other unemployed workers) the hours of labor must be considerably shortened.

And the wages or consumer purchasing power of these and all other workers must rise substantially in order to absorb the augmented output of consumption goods.

Upon these fundamental adjustments depends an increase in employment, income, and consumption among workers and professionals engaged in the production of services.

The three conditions are, of course, economically realizable. But not under the relations of capitalist production, *as they would tend to force the rate of profit down to zero*. (Nevertheless, the workers must fight for shorter hours and higher wages, whatever the effect upon profits. For the workers must resist the capitalist efforts to impose upon them the burdens of decline. But as any really shorter hours and higher wages threaten the existence of profit, the capitalists will not yield and the workers must broaden their action: the issue becomes one of saving capitalism or of overthrowing it. In this situation the real interests of the farmers and professionals are identified with the struggle of the workers. Only an increasing mass purchasing power can create an effective demand for agricultural products and for services, particularly of the more poorly paid professionals; and only socialism can release the productive forces to serve all mankind.)

How is the rate of profit threatened by adoption of the three conditions to absorb the unemployed and increase mass consumption? That part of the output of consumption goods workers which was formerly consumed by capital goods workers must now be consumed, through higher wages, by workers who produce consumption goods. Every capitalist appropriates surplus value. This becomes capital, however, only in the form of capital goods. The output of workers producing consumption goods is all consumed. It is consumed by themselves, by workers producing capital goods, and by other classes, including capitalists. The output of workers producing capital goods is *not* consumed. It becomes concrete capital, capable of producing more profit. Or consider the matter in terms of wages: The wages of workers producing consumption goods are spent on buying part of their own output, which is consumed. The wages of workers producing capital goods are not spent on their own output, but on consumption goods. All their output becomes income-yielding wealth.

Thus the wages and consumption of other than capital goods workers are, from the angle of capitalist production as a whole, sheer, if necessary, waste. The surplus product or profit appropriated by the capitalist class must *decrease* in the measure that workers producing consumption goods consume *more* of their product. This is inevitable if unemployed capital goods workers are absorbed in the production of consumption goods. They now consume their own product instead of the surplus product of other workers, formerly appropriated by the capitalists and converted into capital. And their consumption now produces no compensation in the form of capital goods. The situation becomes clear under the assumed condition of no output of capital goods: surplus product or profit would practically disappear except for capitalist consumption of necessities and luxuries. (Hence the production of luxuries tends to increase in the epoch of the decline of capitalism.)

Under these conditions, and from a capitalist angle, the only way out is an intensification of the export of capital and imperialism. For then an increase in production and employment does not depend upon an increase in wages and mass consumption which results in no accumulation of capital. The additional output (both consumption goods and capital goods) is exported and payment received in the form of foreign investments, or capital claims upon foreign labor, production, and income. Thus the export of capital is a capitalization of the labor of workers who otherwise would be unemployed; or who, if employed, would merely produce goods for their own consumption, and thereby threaten profits. . . .

How much chance is there, then, of an increase in mass consumption? Even in the epoch of the upswing of capitalism, and of an increasing output and absorption of capital goods, there were periods when mass consumption was merely stationary or fell, although it tended in general to rise. In the epoch of the decline of capitalism, mass consumption must fall because of the decrease in the output and absorption of capital goods.\* *For an increase in mass consumption,*

\* Would not more consumption mean more demand for capital goods? Only within limits, as the productive powers of industry are already highly developed. It would not compensate for the shorter hours necessary to absorb the unemployed in the production of consumption goods and for the higher wages necessary to absorb the output. Substantial and profitable demands for capital goods depend upon the development of new industries and the industrialization of new regions. The solution is possible under socialism: increase the output of "capital goods" in the form of finer homes and schools, shorten hours and raise "wages," increase mass consumption and leisure.

*involving shorter hours and higher wages, simultaneously with a decrease in the output of capital goods, would not only disastrously lower the rate of profit but tend to abolish profit altogether.* Capitalists are not going to raise wages and shorten hours merely to sell more goods to workers on which they make no profit, particularly as this tends to abolish profit if done on a sufficiently large scale. It is more advantageous to depress the level of production, to restrict it within profitable limits, however small. This means millions of unemployed and lower mass standards of living: but that is of secondary importance in a profit economy. The problem is thus one of the abolition of capitalism, not of reconciliation and collaboration. . . .

Capitalism has always restricted production—by its underdevelopment of the forces of consumption, by the restrictive practices of monopolist combinations, by the decline of production in depressions. In 1928–29, years of unprecedented prosperity, many industries were producing from 25% to 75% below capacity. Yet there was overproduction. And in the pre-1929 years of prosperity the efforts to “control” production and prices resulted in the organization of “trade institutes,” intended to adjust output to demand. “Organized with the approval of the Federal Trade Commission, they desire to do within the law what the law expressly forbids, and profess to avoid the charge of illegality which wrecked the open-price associations.”<sup>6</sup> Restriction of production was justified on the plea that it meant avoidance of overproduction and depression. Demand is not, however, restricted by lack of wants but by lack of purchasing power to satisfy them. Overproduction was not the result of misjudging demand, but of the whole movement of production and consumption. If output had been adjusted to demand, on the basis of stifling wants instead of satisfying them, it would have lowered employment, wages, and consumer purchasing power and upset the very economic equilibrium it was intended to maintain—exactly what happened in 1929–30.

Where, however, the restriction of production was formerly only relative, it tends to become absolute in the epoch of the decline of capitalism. This expresses itself both in objective developments and in deliberate policy. Capitalism rebels against its historical function, the development of production. Where once it offered economic progress, it now offers economic stagnation.

Since the World War, large-scale efforts have been made to restrict the output of agricultural commodities, particularly wheat, cotton, rubber, sugar, and coffee. . . . Brazil “controls” coffee production, burns the “surplus” crop, and spends \$1,000,000 advertising in Amer-



ican newspapers—to increase consumption! . . . International cartels “regulate” the output of minerals. . . . France and England limit production in one form or another. . . . Fascist Italy restricts consumption (and production) because of its unfavorable trade balance: exports must go up, imports down. . . . Fascist Germany increases the power of cartels to “fix” production downward and prices upward, while “excess production” in agriculture is made legally punishable: output must be limited to “what the German economic body is able to consume”—on the basis of the prevailing mass starvation! . . . Fascism everywhere magnifies the tendency toward economic nationalism and “autarchy,” which necessarily means a decrease in production and consumption. . . . General Eoin O’Duffy, leader of the Irish Fascists, says: “The revival of Irish industry is my first aim. My idea is not heavy industries but hand industries which would have a double advantage for us: they would enable us to find work for our people and also to keep them on the land instead of encouraging them to herd in towns.”<sup>6</sup> . . . These are manifestations of deliberate revolt against the productive forces of modern industry and their capacity to liberate mankind from want.

Nirraism also tends to restrict production. The policy of restriction appears most clearly in the program of the Agricultural Adjustment Administration, which destroys “surplus” crops and offers the farmers inducements to reduce output. It appears also in the program of the National Recovery Administration. And the policy is implicit in the National Industrial Recovery Act itself: “To avoid undue restriction of production (except as may be temporarily required.)”<sup>7</sup> The “temporarily” is interpreted in their own fashion by capitalist interests:

“The methods which many business groups are proposing for curing the depression all come down to one essential—produce less and collect more. Rule out new capacity or improved methods; restrict the output of present plants; eliminate price-cutting and other cruel devices of unrestricted competition; base prices on the high cost of producing little; produce only as much as can be sold at cost—these are typical of the suggestions which appear over and over again.”<sup>8</sup>

In agreement is the president of the Building Trades Council of the American Federation of Labor, who, in advocating control of industrial production and the allocation of quotas, says:

“We should go the whole length necessary to complete recovery as soon as possible, or, in other words, to adopt in manufacturing, mining and construction the same direct, comprehensive policies that are



being put into effect by the Agricultural Adjustment Administration.”<sup>9</sup>

In accord with its state capitalist nature, the NRA creates an apparatus and policy for the deliberate restriction of production—disguised as “controlled production.” Practices formerly illegal are now sanctioned by the government: the National Industrial Recovery Act categorically suspended the anti-trust laws. Trustification of industry is encouraged, and trade associations are practically given the powers of cartels to “regulate” production and prices. The “fair” competition prescribed in the codes means higher prices and profits and lower output. Prices are fixed to insure “fair” profits, although lower prices and profits might induce more consumption, production, and employment. The NRA enormously enlarges the scale of monopoly conditions and practices, and monopoly tends toward the restriction of production.

Yet the avowed aim of the National Industrial Recovery Act is “to increase the consumption of industrial and agricultural products by increasing purchasing power”!<sup>10</sup> This is merely *one* of the contradictions of Niraism, of state capitalism, which professes to increase simultaneously consumption *and* prices, wages *and* profits, employment *and* technological efficiency.

Consumption must necessarily fall in the epoch of the decline of capitalism because of the permanent economic crisis, unmistakably evident in the policy of restricting production. The necessity is accepted and rationalized by fascism. Thus an American fascist says: “Countries with a less abundant supply of natural wealth and capital will be compelled to introduce a restricted consumption system of one sort or another—possibly by the strict regulation of wages and price levels.” To make the Fascist medicine more palatable he excepts the United States, “whose productive capacity is already great enough to guarantee a more than adequate standard of life for the entire population.”<sup>11</sup> But American capitalism is not using and cannot use, without danger, its “productive capacity, already great enough to guarantee a more than adequate standard of life.” The great productivity of industry itself creates the conditions which result in decreasing consumption. And who will consume less? Not the capitalists, the upper bourgeoisie. Those who will consume less are the workers and farmers, the lower bourgeoisie, the unemployed or poorly paid professionals. In the epoch of the upswing of capitalism the workers’ consumption decreased only relatively; now capitalism, in the epoch of its decline, forces an *absolute* decrease in consumption upon the workers. Mass standards of

living must fall precisely when industry is capable of raising them to unheard-of heights. . . .

The policy of restricting production (and consumption) includes "fixing" prices and "insuring" profits. These measures are not always successful; or, if successful, create new disturbing conditions.

Efforts to restrict, on a world scale, the output of agricultural commodities (sugar, coffee, rubber) resulted in temporarily higher prices; but this encouraged new competitive plantings and more output, and the "control" schemes broke down. Prices are raised by the American farmers' reduction of acreage and crops; the government wastes millions of public money to "compensate" the farmers, whose critical situation becomes worse; and, unless the policy is temporary, experience shows that the restriction schemes will fail.

The efforts to restrict industrial production go hand in hand with efforts to increase it. This contradiction reflects a more fundamental one: the conditions of decline force capitalist industry to restrict production. But the restriction of production, whether or not it is a result of deliberate policy, threatens the foundations of capitalism, as large-scale industry depends upon increasing output. Restriction is profitable only when practiced by a limited number of industries or enterprises; when all of them restrict output, they strangle each other and industry itself.

If production is restricted, larger profit margins become necessary on the smaller output. The result is higher prices and lower demand. Or improved technological efficiency and more unemployment. "The NRA wants business to buy new machinery, modernize its plants, and compete through increased efficiency in producing low-cost products."<sup>12</sup> Or a combination of both. And consumption tends to fall.

If prices are fixed, they will usually be fixed upward. But if prices rise while output falls, increasing unemployment and decreasing wages, demand and consumption must fall.

If prices are not fixed but are left, under the conditions of decline, to find their own level, bankruptcy and the depreciation of capitals will develop on an unprecedented scale because of unprofitable prices and intensified competition.

If industry is assured "fair" profits by means of "fair competition" and an upward fixing of prices, survival becomes easier, and bankruptcy and the depreciation of capitals will tend to diminish. The drive to improve technological efficiency loses much of its force and lessens the demand for capital goods. Surplus capital will increase, seeking investment anywhere, anyhow, strengthening competitive

pressures. Eventually the "balance" of fixed prices and profits is upset, and both fall disastrously.

If competition *is* limited within an industry, it will intensify the competition of increasing technological efficiency and the competition of industry against industry. Dam competition here, it overflows there.

Thus "controls," particularly in the epoch of decline, do not abolish the contradictions and antagonisms of capitalist production, but aggravate them. Nor do they abolish overproduction, which is a relative condition. On a lower level of economic activity, wages will still lag behind profits and consumption behind production. There will still be cyclical crises and breakdowns. These disasters were not averted in the highly cartellized and "controlled" industry of Germany. Whether industry is "free" or under "controls," whether prices rise or fall,\* or capitalism is on the upswing or downswing, there is still that alternating expansion and contraction in the output of capital goods which determines the cycle of prosperity and depression.

The deliberate policy of restriction is not the major factor tending to drive production downward in the epoch of the decline of capitalism. That is determined primarily by the forces of decline itself, by the inability of industry to absorb an increasing output of capital goods. The lower level of production is the outcome of efforts to avert the disastrous fall in the rate of profit which would ensue if mass consumption rose simultaneously with a decrease in the output of capital goods. *But on the lower level of production the rate of profit still tends to fall disastrously.* For all the contradictions pressing down the rate of profit in the epoch of the upswing of capitalism must necessarily work with greater force in the epoch of decline.

While production tends to lower levels, there will be no reversion to small-scale industry (one of the demagogic promises of fascism).†

\* "Steadying industry by steadying prices . . . may, of course, simply mean steadying dividends without regard to output. . . . Under perfectly steady prices there would still be great booms and depressions in the capital-making industries, and resulting booms and depressions in industry at large." J. M. Clark, *The Economics of Overhead Costs* (1924) pp. 404-06.

† The German fascists made far-sweeping and categorical promises to help the "small man," the small producer. A dispatch to the *New York Times*, December 24, 1933, says: "The policy in industry is ambiguous. Cartel combinations have been favored, even enforced, in the interest of big industry, but, simultaneously, numerous small measures have been taken to encourage petty undertakings and hand workers." Thus the promises are completely repudiated, for the measures "to encourage petty undertakings and hand workers" are unimportant, in the nature partly of demagoguery and partly of "relief." A similar situation prevails in Fascist Italy. The basis of modern industry is large-scale production.

On the contrary, larger masses of fixed capital will be required because of the desperate endeavors to raise profits by lowering costs. There will be an augmenting of the higher composition of capital, variable capital (wages) decreasing in favor of constant capital (equipment and materials). The fixed portion of constant capital particularly will increase because the downward tendency of production limits the demand for raw materials. Under the conditions of decline, changes in the composition of capital may not be as great, in an absolute sense, as in the past, but they will be greater relatively to the lower level of production. And on this lower level, the contradictions and antagonisms set in motion by the higher composition of capital become more acute and devastating.

In the epoch of economic upswing, and increasing production, variable capital fell only relatively to constant capital: there was an absolute rise in employment and wages (and mass consumption). In the epoch of decline, and economic stagnation, variable capital tends to fall absolutely, and this means a decrease in employment, wages, and mass consumption. While consumption falls, the capacity of industry rises, the more so as technological progress makes new machinery much more efficient than the old. The problem of excess capacity is enormously aggravated. Overhead costs become greater as output falls, more than formerly, to grow sufficiently. Each unit of product requires a constantly larger capital investment. Excess capacity becomes worse if "controls" assure "fair" profits and make survival easier, or if prices are fixed upward and demand and consumption are thereby lessened. High profits create more disturbances because of the downward tendency of production.\* While the conditions of decline mean a considerable destruction of capital and depreciation of capital values, the problem of surplus capital becomes more acute because of the lower level of production and the narrowing of investment opportunities. Surplus capital is still more abundant if "controls" assure "fair" profits and prevent destruction and depreciation of capitals. In both cases an increase in excess capacity occurs. The productive forces become so great that their full utilization is unprofit-

\* "There is possibly a permanent slackening of the rate of increase of needed new investment which, by requiring smaller savings, will make larger profits a more disturbing problem in the future. . . . We shall not need such a large increase of investment." Ralph E. Flanders, "The Economics of Machine Production," *Mechanical Engineering*, September, 1932, p. 608. Proportions are decisive in this connection. Profits are proportionately higher where, on a lower level of production, their ratio to "needed" investment is as 5 to 3 than where, on a higher level of production, the ratio is 10 to 9.



able; yet production is unprofitable if capacity is not fully utilized. The rate of profit tends to fall disastrously.

Control excess capacity? But that means a lower output of capital goods, the basis of prosperity. Increase consumption? But that tends to abolish profits. Capitalist production must expand or decline: it cannot be stabilized. And the capitalists are forced to do the very things which aggravate their problems. A ruling class is the slave of the contradictions and the destiny of its being. Thus the American slave power, beset by the necessity of expansion or the inevitability of decline, chose the suicidal adventure of war. . . .

Not only, in the epoch of decline, is there a greater downward pressure on the rate of profit: *the mass of profits tends to fall*. Formerly, a fall in the rate was offset by a rise in the mass of profits. The capitalists are enriched more by an income of \$2,000,000 on a capital yielding 5% than by an income of \$1,000,000 on a capital yielding 10%. And the mass of profits must tend to fall under the conditions of constantly larger fixed capital, lower production, and increasing excess capacity.\* The rate of profit falls more precipitously and aggravates all the disturbances created by the fall. In the effort to save itself capitalism strengthens the downward pressure on the rate and mass of profit. The state spends money lavishly to prop up the sagging foundations of capitalism—loans to industry and subsidies, public works, promotion of exports, imperialism, and war. It must also spend money on relief, to prevent a revolt of the masses. These expenditures increase the public debt and taxation. The burdens of taxation are thrust mainly upon the workers, farmers, and lower bourgeoisie, but profits are also taxed, and tends to lower the mass and rate of profit. (If the drain on profits becomes too great, relief is cut, and capitalism, by means of Fascism, throws all the burdens of decline upon the masses.)

The fall in the rate of profit, particularly in the epoch of decline, is the most serious threat to capitalism. Many bourgeois economists, among them Keynes, admit the prospect of a steadily falling rate of

\* "As soon as a point is reached where the increased capital produces no larger, or even smaller, quantities of surplus value than it did before its increase, there would be an absolute overproduction of capital. . . . There would be a strong and sudden fall in the average rate of profit. . . . A portion of the capital would lie fallow completely or partially . . . while the active portion would produce values at a lower rate of profit, owing to the pressure of the unemployed or partly employed capital. . . . The fall in the rate of profit would then be accompanied by an absolute decrease in the mass of profits." Karl Marx, *Capital*, v. III, p. 295.



profit (or rate of interest). But some of them view the matter with equanimity. Thus Keynes says:

"The prospect for the next twenty years appears to me to be a strong tendency for the natural-rate of interest to fall, with a danger lest this consummation be delayed and much waste and depression unnecessarily created in the meantime by central banking policy preventing the market-rate of interest from falling as fast as it should. . . . The risk ahead of us is . . . lest we experience the operation of a market-rate of interest which is falling but never fast enough to catch up with the natural-rate of interest, so that there is a recurrent profit deflation and a sagging price level. If this occurs our present régime of capitalist individualism will assuredly be replaced by a far-reaching socialism."<sup>13</sup>

By a stroke of hocus-pocus, Keynes converts the threat to capitalism into a promise of life everlasting. *If only* the capitalists accept a lower rate of profit! But they won't. Keynes himself proves this, by his unsuccessful agitation to lower the interest rate. Capitalist production is a perpetual struggle against the tendency of the rate of profit to fall. The struggle becomes more desperate in the epoch of decline. If a small fall in the rate of profit creates crises and depressions, a considerable fall necessarily throws capitalism into convulsions. For profit is practically abolished if the rate falls too low, as profits would be absorbed by capital replacements.

An American fascist, Lawrence Dennis, clearly appreciates the danger: "The present financial organization of society is such that a progressive decline of the interest rate to near zero would entail consequences which seem humanly unendurable. The declining interest rate would paralyze economic activity long before a zero interest rate was approximated."<sup>14</sup> Why? Because capitalism will not passively accept a rate of profit which threatens profit itself. It will not voluntarily accept doom. Capitalism will struggle against the falling rate of profit. It will destroy and depreciate capitals, so that the rate on the surviving capitals may rise. It will limit production, throw millions out of work, lower wages, and depress mass consumption, in order to "earn" a higher rate of profit. Yes, capitalism will struggle, desperately and brutally. It will resort to the export of capital and imperialism, and war, to prevent the rate from falling. It will resort to Fascism, as is urged by Dennis, whose heart bleeds over the fall in the interest rate, subjugating the workers and farmers, degrading the professionals, mobilizing savagery in defense of the profit system. The fall in the rate of profit is not, as Keynes seems to imagine, the means of a

smooth transition to a "new social order" which "is" and yet is "not" capitalism. It is the expression of economic decline and an omen of violent class struggles, social explosions, and wars.

But the fall in the rate of profit is also the omen of a really new social order. For Keynes is right on one thing: because of disturbances created by the falling rate of profit, "capitalist individualism will be replaced by far-reaching socialism." In final analysis, the falling rate is due to the antagonism between production and consumption under capitalism; and the growing antagonism is an expression of the objective socialization of industry and the enormous increase in its productivity, the objective basis of socialism. The fall in the rate of profit indicates, moreover, that there are economic limits to the development of capitalism, that it nurtures the seeds of its own decay. In the words of Marx:

"The rate of profit is the compelling power of capitalist production, and only such things are produced as yield a profit. Hence the fright of the English economists over the decline of the rate of profit. That the bare possibility of such a thing should worry Ricardo shows his profound understanding of the conditions of capitalist production. . . . What worries Ricardo is the fact that the rate of profit, the stimulating principle of capitalist production, the fundamental premise and driving force of accumulation, should be endangered by the development of production itself. There is indeed something deeper than this hidden at this point, which he vaguely feels. It is here demonstrated in a purely economic way, that is, from a bourgeois point of view, within the confines of capitalist understanding, from the standpoint of capitalist production itself, that it has a barrier, that it is relative, that it is not an absolute but only an historical mode of production corresponding to a definite and limited epoch in the development of the material conditions of production."<sup>15</sup>

## Summary

**C**APITALISM develops the forces of production more than the forces of consumption. This is a condition of the accumulation of capital. Consumption grows only if an increasing output of capital goods, the means of converting profits into capital, creates consumer purchasing power which is spent on consumption goods (and services). If it becomes unprofitable to produce capital goods, and their output falls, production and consumption must fall simultaneously. For the capitalist system is based on the making of profits and their conversion into capital, and this creates an irreconcilable antagonism between production and consumption.

One result of the antagonism is cyclical crisis and breakdown. Although the production of capital goods creates purchasing power, the lag of wages behind profits eventually engenders a deficiency in consumption, which becomes acute when markets are saturated by the mounting output of newly producing capital goods. The consumption goods industries, overequipped and overproducing, lessen their demands for capital goods. The output of capital goods falls, and the crisis moves on to depression. Production revives if and when there is a renewed demand for capital goods; and if the demand is an increasing one, revival moves on to recovery and prosperity.

Another result of the antagonism between production and consumption is that the productive forces are never fully utilized. This amounts to a restriction of production and consumption. The restriction was relative to the epoch of the upswing of capitalism. Both production and consumption scored an absolute increase, although the increase was always below the possibilities of industry; and while the workers' consumption rose (in spite of periods when it was stationary or decreased) it fell relatively to the share of the propertied classes. In the epoch of decline, however, the tendency toward the restriction of production and consumption becomes absolute. Capitalist prosperity depends upon an increasing output and absorption of capital goods. With the older industries mechanized, no new industries developing, and the industrialization of new regions declining—with measurable exhaustion of the long-time factors of economic expansion

and their increasing demand for capital goods—there is no chance of an upsurge in the production of capital goods and, consequently, of an upsurge in prosperity. For capitalist industry fully to utilize its productive forces would require a great increase in mass consumption by absorbing the unemployed, shortening hours, and raising wages; but this would seriously reduce profits and threaten profit itself. Under these conditions, capitalist industry tends toward an absolute restriction of production and consumption.

The average yearly rate of growth of production has been slowing down for many years. It is the inevitable expression of growth itself. Nevertheless the slowing down of the rate of growth is eventually ruinous economically, as it tends to approximate to zero and expansion is a necessity of capitalist production. Expansion must primarily, however, take the form of an increasing output of capital goods, which produce more profits and embody the capitalist claims to wealth and income. If expansion is primarily in consumption goods the rate of profit must fall disastrously. The capitalists restrict production. Restriction, if it becomes general, means not only a rate of growth approximating zero but an absolute decrease in production, with the rate of profit eventually tending to fall disastrously. These developments and contradictions create a permanent crisis. It is the decline of capitalism.

Decline is not collapse. The decline of capitalism does not mean that the economic order is unable to function, but that it must function on a lower level. It does not mean an inability to restore production and prosperity, but an inability to restore them on any considerable scale. While the decline may be interrupted, the downward movement will persist. Capitalist decline involves, primarily, an increase in class-economic, social, and international disturbances, a tendency toward stagnation simultaneously with the aggravation of instability, a reaction against progress in all its forms.

The capitalist class strives to throw the burdens of decline upon the workers (and farmers and professionals). It slashes their wages, throws millions out of work, and limits their consumption. In particular, unemployment becomes greater and increasingly permanent, a development inherent in the dynamics of capitalist production. In the epoch of the upswing of capitalism unemployment, other than seasonal and cyclical, was essentially technological—the result of displacement of labor by more efficient machinery. Displaced workers were eventually absorbed because of the upward movement of production (the tendency was, however, for unemployment to increase). In the epoch

of the decline of capitalism unemployment is essentially economic—workers are still displaced by improved technological efficiency, but they are no longer reabsorbed because of the downward movement of production; and this becomes the main cause of unemployment. Increasing technological efficiency is no longer accompanied by increasing expansion of industry. Unemployment becomes *disemployment*. A growing mass of unemployable workers, whom the profit economy condemns to a living death, is characteristic of the decline of capitalism.





PART FIVE

Unemployment, Technology, and Capitalism



## Introductory

THE problem of increasingly great permanent unemployment, of the inability to provide work for millions of men and women eager to work, was not a creation of the depression. Like the decline of capitalism, it emerged in the midst of the flourishing prosperity of 1923–29. For employment, during that “Golden Age,” moved downward while production and profits were moving upward.

Mass unemployment is essentially a peculiarity of capitalism. It has three forms: seasonal unemployment, existing only because it is more profitable *not* to regularize employment; cyclical unemployment, the result of the recurrent breakdowns of industry, of depression; and the minimum unemployment which is independent of seasonal and cyclical influences. The third form of unemployment is styled “normal,” the expression of an economic system in which the abnormal so often becomes the normal. “The unemployed percentage,” according to one bourgeois economist, “however it may fluctuate, never fluctuates down to zero.”<sup>1</sup> Normal unemployment means simply that capitalist industry is so organized and managed that there must *always* be a reserve of unemployed workers, even in the most prosperous times, to provide labor for new enterprises and as a means of forcing down wages. Under capitalist conditions, the providing of steady employment would hamper expansion (which is unplanned) and tend to raise wages to unprofitable levels. Normal unemployment is therefore a condition of capitalist production and accumulation.

In the United States, because of its greater and more violent expansion, normal unemployment has always exceeded that in other countries. Unemployment averaged 7.8% of the available workers in the prosperous years 1900–13 (excluding the major depression of 1907–09).<sup>2</sup> It became worse in 1923–29, as a direct result of unusual prosperity.

If the theoretical assumptions of the “new capitalism” (and now of Niraism) were valid, there would have been no cyclical crisis and breakdown. Nor would there have been any substantial increase in unemployment. But the assumptions, where they were not sheerly apologetic, were wholly unreal. They were compact of doctrinal ab-

stractions, having little relation to a dynamic capitalism rent by strains and stresses and contradictions, and ignoring the antagonisms of an economic system dominated by the production of profits. It was, and is, assumed that increasingly higher employment and wages follow an increase in the productivity of labor and in production; that as production costs decrease and output rises, prices fall, consumer purchasing power and mass consumption mount, and more goods are produced and more employment is created. In other words, the assumption is that the gains of greater productivity and production are proportionally distributed. But there is no such proportional distribution under capitalism, whose main characteristic is disproportionality. Hence crisis and breakdown. Hence the spread of unemployment, like creeping paralysis, in the midst of unprecedented prosperity.

An examination of the fluctuations of employment, in their relation to production, prosperity, and depression, demonstrates that there is no objective basis for the wholly unreal theories of capitalist apologists.



## Prosperity and Unemployment

UNEMPLOYMENT is essentially an aspect of the higher productivity of labor under the social relations of capitalist production. Normal unemployment grows when the productivity of labor rises disproportionately to output. Cyclical unemployment prevails in depressions, brought about primarily by forces identified with the higher productivity of labor (which is not matched by higher employment and wages). And the increasingly greater unemployment of capitalist decline is a result of industry having become so highly productive that it is unprofitable to use all its capacity: hence millions of workers are thrown out of work. The increasing efficiency of American industry in 1920-29 considerably raised the total of "normally" unemployed workers. For while the higher productivity of labor *may* mean higher wages, it *always* means a displacement of labor because fewer workers are required to produce a larger output. Thus labor is penalized by its own efficiency.

The great rise in the productivity of labor, in output per worker, started in 1921-22, under the impact of falling prices and rising real wages. In 1922, after a temporary shutdown, during which equipment was improved, the Ford Motor Car Company turned out more work with 40,000 workers than formerly with 57,000. . . . In 1925, the Owens automatic bottle machine was adapted to the production of prescription ovals, and man-hour productivity rose 4,100 times. . . . A survey of thirty-five plants in 1927 showed that output per worker was 75% higher than in 1919 and 39% higher than in 1924. . . . The productivity of labor rose 98% in 1919-27 in the manufacture of automobiles and 198% in rubber tires. . . . In blast furnaces, with operation becoming increasingly automatic and almost manless, the productivity of labor in 1929 was 135% higher than in 1919, and 43% higher in steel works and rolling mills. . . . In 1923-29, productivity rose 65% in the coke industry, 48% in beet sugar and condensed milk, 46% in tanning, and 44% in petroleum refining. . . . It rose 30% in the electrical manufacturing industry and over 27% in electric power plants. . . . The dial telephone displaced more than half the operators. . . . Building construction was intensively mechanized. The cement

gun and the paint spray cut in half the labor of painting; a sanding machine for flooring did the work of six hand workers; the time needed to erect large buildings was cut 30% to 40%. . . . In road-building, output per worker rose from 4.7 lineal feet in 1919 to 17.7 lineal feet in 1928.<sup>1</sup> . . . Many equally great increases in productivity took place in various processes of labor on the railroads and in mining and agriculture.

The rise in the productivity of labor was uneven, but it rose substantially in all industries. In 1927, productivity in manufactures was 42.5% higher than in 1919, 40.5% higher in mining, 12.5% higher on the railroads, and 29.5% higher in agriculture. (For the period 1899-1927 the increases were: manufactures 48%, mining 118%, railroads 63%, and agriculture 61%.)<sup>2</sup> The productivity of labor kept on rising: thus on the railroads in 1930 it was 20% higher than in 1920.<sup>3</sup>

There was, naturally, a displacement of labor because of technological changes and higher productivity. This is a normal aspect of capitalist development. "It is," according to one bourgeois economist, "as old as the present industrial system and it is inherent in this system . . . a constant accompaniment of progress in modern industry."<sup>4</sup> But technological displacement is a constant torment to the workers, as it deprives many of them of skill and occupation.

The significant aspect of the rising productivity of labor in 1919-29 was not its rate nor its technological displacement of workers. Only in manufactures was the rate unusually high in comparison with 1899-1919, when there was a lag in the increase of productivity among factory workers: it was not materially higher than in the 1860's-90's. And in the past, displaced workers were almost wholly reabsorbed by the expansion of industry, accompanied by an increase in the total number of workers employed. The significant aspect of the rising productivity of labor in 1919-29 was that for the *first* time in American history there was an *absolute* displacement of labor, a *decrease in the employment of directly productive workers*.

Large numbers of workers were *permanently* displaced in manufactures and mining and on the railroads (Table I). By 1929 the higher productivity of labor in manufactures had displaced 2,832,000 workers, of whom 2,416,000 were, however, reabsorbed by an increase in production; the absolute displacement was 416,000 workers. On the railroads 345,000 workers were displaced by higher productivity and 71,000 by a decrease in output, making the displacement 416,000 workers. In coal mining higher productivity displaced 95,000 workers but the absolute displacement was raised to 171,000 workers by lower out-

TABLE I

*The Displacement of Labor by Increasing Productive Efficiency  
and its Absorption by American Industry, 1920-29*

MANUFACTURES				RAILROADS *			
<i>Changes in Employment (+) or (—) During the Current Year</i>				<i>Changes in Employment (+) or (—) During the Current Year</i>			
DUE TO		DUE TO	NET CHANGE	DUE TO		DUE TO	NET CHANGE
CHANGES IN	CHANGES IN	OUTPUT	SINCE	CHANGES IN	CHANGES IN	OUTPUT	SINCE
YEAR	EFFICIENCY	1920	1920	YEAR	EFFICIENCY	1920	1920
1921	—163,000	—2,045,000	—2,208,000		+2,000	—494,000	—492,000
1922	—935,000	+1,759,000	—1,384,000		—36,000	+100,000	—428,000
1923	—183,000	+1,350,000	—217,000		—52,000	+286,000	—194,000
1924	—276,000	—584,000	—1,077,000		—47,000	—103,000	—344,000
1925	—495,000	+948,000	—624,000		—82,000	+80,000	—346,000
1926	—93,000	+211,000	—506,000		—39,000	+93,000	—292,000
1927	—68,000	—204,000	—778,000		+9,000	—67,000	—350,000
1928	—503,000	+440,000	—841,000		—74,000	—5,000	—429,000
1929	—116,000	+541,000	—416,000		—26,000	+39,000	—416,000

COAL MINING †				TOTALS FOR THE 3 GROUPS			
<i>Changes in Employment (+) or (—) During the Current Year</i>				<i>Changes in Employment (+) or (—) During the Current Year</i>			
DUE TO		DUE TO	NET CHANGE	DUE TO		DUE TO	NET CHANGE
CHANGES IN	CHANGES IN	OUTPUT	SINCE	CHANGES IN	CHANGES IN	OUTPUT	SINCE
YEAR	EFFICIENCY	1920	1920	YEAR	EFFICIENCY	1920	1920
1921	—15,000	—165,000	—180,000		—176,000	—2,704,000	—2,880,000
1922	—27,000	—62,000	—269,000		—998,000	+1,797,000	—2,081,000
1923	—15,000	+224,000	—60,000		—250,000	+1,860,000	—471,000
1924	+8,000	—94,000	—146,000		—315,000	—782,000	—1,567,000
1925	—7,000	—19,000	—172,000		—584,000	+1,009,000	—1,142,000
1926	+5,000	+102,000	—65,000		—127,000	+406,000	—863,000
1927	—11,000	—66,000	—142,000		—70,000	—337,000	—1,270,000
1928	—21,000	—25,000	—188,000		—598,000	+410,000	—1,458,000
1929	—12,000	+29,000	—171,000		—154,000	+604,000	—1,003,000

\* Class I railroads.

† Anthracite and bituminous coal mining combined.

Source: David Weintraub, "The Displacement of Workers Through Increases in Efficiency and Their Absorption by Industry," *Journal of the American Statistical Association*, December, 1932, pp. 396-97. The table covers wage-workers only.

put. (In both these cases the immediate cause of the decrease in output was essentially technological. Improved motor trucks competed more effectively with the railroads; electricity increasingly cut into the demand for coal by industry and the home, steam power plants used less coal because of more efficient combustion, and hydroelectric plants dispensed with coal altogether.) Thus the higher productivity

of labor permanently displaced 1,003,000 workers in manufactures and coal mining and on the railroads.

But that was not all. There was, also for the first time, an absolute displacement of labor in agriculture. In 1929 American farms gave work to 540,000 fewer persons than in 1919. The number of farms, rising steadily from 1,449,073 in 1850 to 6,448,342 in 1920, fell to 6,288,648 in 1930, a decrease of 159,695. Thus most of the displacement was of farm laborers, either hired or the children of farmers. As, however, the farm population fell from 31,614,000 in 1920 to 30,447,000 in 1930, the actual displacement was much greater, there being, probably, 1,000,000 persons who had to find work in other than agricultural occupations.<sup>5</sup> A surplus farm population appeared in 1909-19, because of the small increase in the number of persons working on farms. It has since grown and it will continue to grow as productivity in farming rises and output is stationary or falls. This completes the profound change inaugurated by the closing of the frontier, which still left, however, some few opportunities of absorbing new workers in farming and of rising on the agricultural ladder; but even those few opportunities are now ended. American farming is becoming as stagnant and hopeless as European farming has been for the past century. The surplus farm population of Europe was absorbed by the expansion of industry and by emigration, much of it to the United States when the frontier was being renewed. But American farming begins to produce a surplus population in the epoch of the decline of capitalism, when industry is unable to absorb those who cannot find work on the farms. This has long been true of European farming—and nearly all nations, moreover, are now restricting immigration. . . .

The *absolute* displacement of directly productive workers is of extraordinary significance. It was a result of the development of the forces underlying the decline of capitalism. The direct significance appears clearly in a comparison of the absorption and displacement of workers in the thirty years 1899-1929 (Table II). In 1899-1919, 7,010,000 workers were *absorbed* by employment in manufactures, mining, agriculture, and the railroads. In 1919-29, on the contrary, the same industries *displaced* 1,155,000 workers (including clerical workers, whose labor was increasingly mechanized). And this displacement was accompanied by greater output, except for a small decrease on the railroads.\*

The significance of the absolute displacement of labor becomes more

\* While the output of coal decreased, there was an increase in other minerals: total mining output rose.

apparent if comparisons are made on the basis of two ten-year periods. In 1909-19, three major industry groups absorbed 3,847,000 new work-

TABLE II

*Absorption and Displacement of Workers, 1899-1929*

	1899-1919		1919-29	
	WORKERS ABSORBED		WORKERS DISPLACED	
	NUMBER	PER- CENT*	NUMBER	PER- CENT†
Manufactures	5,361,000	105.6	241,000	2.3
Railroads ‡	943,000	92.7	266,000	13.6
Mining ‡	366,000	62.6	108,000	11.4
Agriculture	340,000	3.9	540,000	6.0
Total	7,010,000	45.9	1,155,000	5.2

\* Percentage of increase over workers employed in 1899.

† Percentage of decrease over workers employed in 1919. (The displacement figures are lower than those in Table I because 1919 instead of 1920 is used as the base year.)

‡ The figures on mining (including quarrying) start with 1902; on railroads with 1900.

Workers include "salaried employees" in manufactures, railroads, and mining. In 1919-29, non-clerical salaried employees increased, so that only clerical workers were displaced.

Source: Computed from statistics in Bureau of the Census, *Manufactures*, 1929 and *Mines and Quarries*, 1929; *Statistical Abstract*, 1932.

ers: manufactures 3,175,390, railroads 457,615, and agriculture 214,000. The process of absolute displacement began in mines and quarries, with a decrease of 42,325 workers. While there was a rise in the total number of workers absorbed, from 3,163,000 to 3,847,000, the *rate* of absorption fell slightly, from 20.7% in 1899-1909 to 20.1% in 1909-19. This slackening was a forecast of the 5.2% rate of *displacement* in 1919-29, which necessarily produced an increase in unemployment.

In 1909-19, there was an increase of 6,027,000 in the number of persons gainfully occupied. To that must be added the 42,325 workers displaced in mining because of the rising productivity of labor, and 310,000 workers displaced in construction because of the decrease in building during the World War and shortly after.<sup>6</sup> Of the 6,388,000 workers who had to find new jobs, 3,847,000 found them in manufactures, railroads, and agriculture. All other occupations had to absorb only 2,541,000, of whom 822,000 were absorbed in trade.

In 1919-29, there was an increase of 7,180,000 in the number of



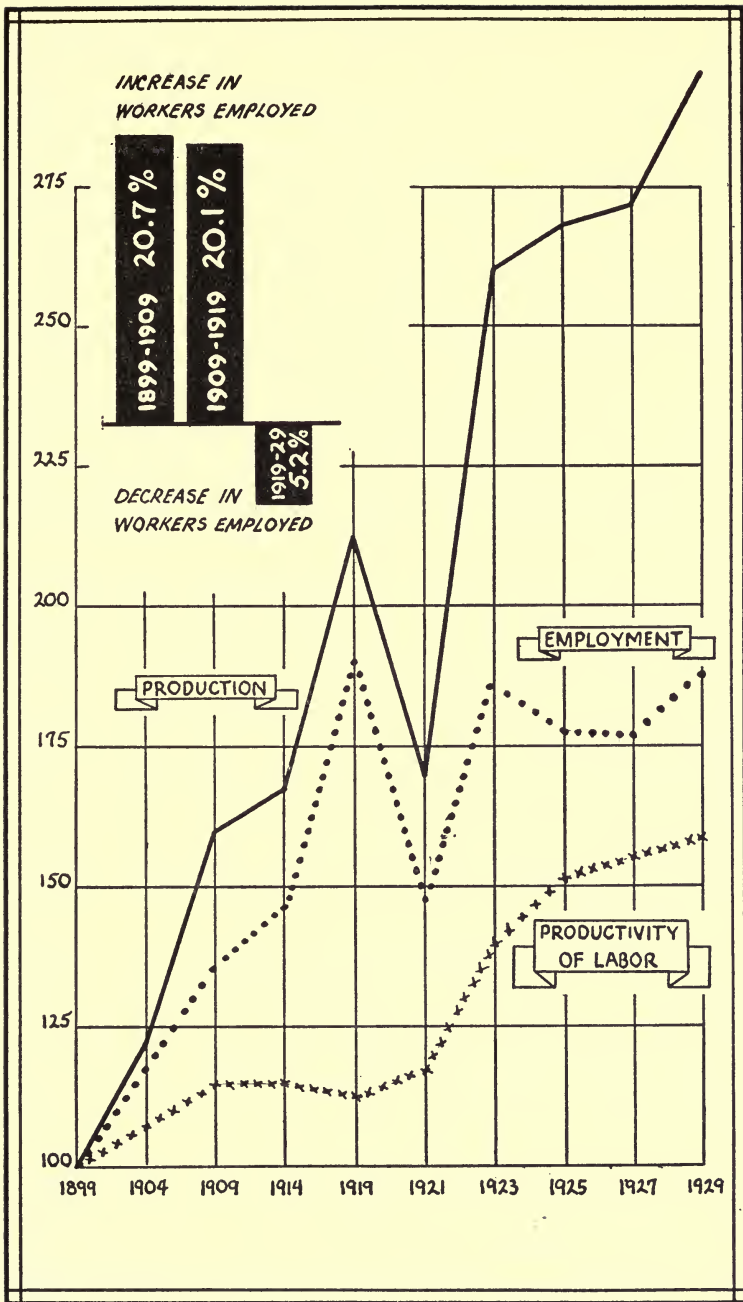
persons gainfully occupied,<sup>7</sup> to which must be added the minimum of 1,155,000 \* workers displaced by the rising productivity of labor. Of the 8,335,000 persons (mainly wage-workers) who had to find new jobs, *all had to find them in occupations other than in manufactures, railroads, mining, and agriculture.*

This was an unprecedented development, of profound significance. For it meant that the four major industry groups which formerly *absorbed* most of the new workers, now *displaced* a considerable number of workers. It meant that, to provide employment for the 8,335,000 persons who sought work, occupations other than in manufactures, railroads, mining, and agriculture *had to grow nearly three and one-half times as much as in 1909-19.* They did experience an unusual growth. Distribution, motor transportation, and trade (including automotive and radio products, garages, chauffeurs, motion pictures, insurance agents), gave employment probably to over 3,000,000 persons. There were similar great increases in some other occupations. But absorption in the construction industry, in spite of its unusual expansion, was limited to 320,000, and in 1929 its total employees (attached to the industry, but not necessarily regularly employed) was somewhat lower than in 1909.<sup>8</sup> The statistical evidence is incomplete. The decrease in the number of directly productive workers is a clear indication, however, that there was, after all absorptions, a substantial remainder of unabsorbed and unabsorbable workers. Prof. Wesley C. Mitchell, writing early in 1929, said:

"The supply of new jobs has not been equal to the number of new workers *plus* the old workers displaced. Hence there has been a net increase of unemployment, between 1920 and 1927, which exceeds 650,000 people."<sup>9</sup>

That was admittedly a *minimum* estimate. Agricultural workers are not included, and the figures of unemployment in groups comprising nearly one-half of total employees are conceded to be "the least reliable of all and probably much too low." It is much more likely that unemployment increased by at least 1,000,000. As there were probably 1,500,000 unemployed workers in 1920, normal unemployment (including clerical workers) in 1927-29 rose to 2,500,000, excluding the unemployed in professional occupations. And this great increase in the

\* Actual displacement was over 1,500,000 workers if the calculation is made for the years 1920-29. Employment in 1920 was greater than in 1919, and the absolute displacement of labor began only in 1922-23.



X. THE CREATION OF DISEMPLOYMENT.

reserve army of the unemployed took place in the midst of the most flourishing prosperity.\*

That unemployment *did* rise, whatever the magnitude of the increase, is an indisputable fact. It was observed and admitted by a number of bourgeois economists. They maintained that technological efficiency, or the productivity of labor, was rising faster than production, and displacing many workers. This was denied by the more sheerly apologetic economists. One of them, the president of the National Industrial Conference Board, said:

"It is a well demonstrated economic principle that increased production creates new wants and that new industries bring with them new demands for both materials and services. As mechanization of industry with its requirement of fewer workers per unit of product decreases production costs and prices, the demand for commodities simultaneously increases and causes not only the theoretically released workers to be absorbed but in addition calls new workers into production."<sup>10</sup>

Not necessarily. For the argument assumes "ideal" general principles regardless of whether they work in reality. Production costs decrease, but prices may not fall correspondingly: capitalist enterprise retains as much as it can of the gains of the higher productivity of labor. Prices in 1923-29 did *not* move downward as productivity moved upward. Even if prices fall, they may not do so as much as costs, and consumer gains are offset by the losses of displaced workers. Dispro-

\* Increasing unemployment aggravated competition in the labor market and helped to prevent any general rise in wages, one of the most important uses of the reserve army of the unemployed. "The overwork of the employed part of the working class swells the ranks of the reserve; while, conversely, the increased pressure which, through competition, the members of the reserve exert upon those who are in work, spurs these latter to overwork, and subjects them more completely to the dictatorship of capital." Karl Marx, *Capital*, v. I, p. 702. "The difficulty of obtaining employment has discouraged workers from leaving the jobs which they have held—the resignation rate among factory employees between 1920 and 1926 decreased two-thirds." Sumner H. Slichter, "Market Shifts, Price Movements, and Unemployment," *American Economic Review*, Supplement, March, 1929, p. 13. "Unemployment is reducing labor costs per unit of output. . . . Invariably labor efficiency increases whenever there are more men than jobs." John Moody, "Review and Forecast," *Moody's Investors Service*, January 5, 1928, p. 1. "The labor reserve in the United States, despite immigration restrictions, is slowly increasing and is likely to act as a bar to any further general rise in the wage level." Magnus W. Alexander, president, National Industrial Conference Board, *New York Times*, January 1, 1928. "We face an increase in unemployment. . . . Unemployment, disagreeable though it be, has its use despite the heartaches which accompany it. . . . The shadow of unemployment will reduce labor to sanity." Nelson, Cook and Company, bankers, *New York Times*, March 11, 1928.

portions in prices and profits, in production and consumption, are intensified by the fact that gains in efficiency are unevenly distributed \* within an industry and between industries. Prices are affected by productivity, but they are also affected by long-time price movements and by the resistance of monopolist combinations to lower prices. Increasing productivity, where it requires new equipment, stimulates output and employment in the machinery industries; but the labor incorporated in the making of the new machinery is always less than the labor it displaces, otherwise there would be no gain to the buyer. Moreover, the greater efficiency of new machinery may flow from qualitative changes, and thus reduce the amount of new equipment. Or higher productivity may result from more intensive exploitation of labor, requiring no capital expenditure. Workers are displaced in the machinery industries because there, too, the productivity of labor rises. New industries create new demands for labor, but such demands are relatively small, as these industries, adopting the most efficient methods of production, have a high composition of capital (with a low ratio of labor and wages to equipment and raw materials). And new industries may not develop rapidly enough or on a scale proportionate to the displacement of labor. The demand for luxuries may increase, but their production may also require less labor as its productivity rises. Finally, because of high profits, low wages, and the concentration of income, the demand for commodities may *not* rise simultaneously and equally with the rise in productivity and production: if it did, there would be neither an increase in unemployment nor cyclical crises and breakdowns. Thus changes may go on within the limits of magnitudes and proportions which upset the "ideal" assumptions of apologetic economics.

A liberal reformer, Prof. Paul H. Douglas, also accepted the "ideal" assumptions of apologetic economics:

"It is clear that permanent technological unemployment is impossible. . . . Improvements in industrial processes, like changes in demand, will produce a shifting of labor and capital within the economy."

\* There must be, under capitalism, an uneven distribution of technical efficiency. The simultaneous adoption by all enterprises of improved methods of production would tend, from the standpoint of competition and profit, to cancel the gains. A rise in the rate of profit ensues where an enterprise has the *exclusive* use of more efficient methods and can undersell its competitors; but when their use becomes general the rate of profit tends to fall because of the higher composition of capital, excess capacity, and competition. The profit motive is the basic cause of the planless nature of capitalist production: they are inseparable.



But the "shifting of labor and capital" is always within definite limits, permanently excluding from employment a part of the available workers—small in the epoch of the upswing of capitalism, increasingly larger in the epoch of decline. And Douglas' modification of his conclusion permits drawing one which is the complete opposite of his own:

"There is likely to be a considerable intervening period of unemployment before all the [displaced] workers find employment. During this period they will not receive wages and their purchasing power will in consequence be reduced. Some unemployment will tend to result elsewhere. This element of instability is multiplied if improvements are taking place simultaneously in a large number of industries and is particularly aggravated if the commodities are subject to inelastic demand. If the rate of technical progress in a society is, moreover, accelerated, the number who are thrown out of employment temporarily is increased. The purchasing power of these workers is temporarily reduced and their demand for goods curtailed. This transitional loss of employment has therefore a magnified effect and prevents the previous analysis from working out to the full extent and with the precision which has hitherto been implied."<sup>11</sup>

Precisely! The "considerable intervening period of unemployment" and the "element of instability" upset all the "ideal" assumptions that workers displaced by the higher productivity of labor are necessarily absorbed by higher output. And if there are factors which prevent the process of absorption "from working out to the full extent and with precision," why insist categorically that "permanent technological unemployment is *impossible*"? Combinations of the same factors underlying "considerable intervening periods of unemployment" may conceivably produce absolute displacement and an increase in permanent unemployment. It is not only conceivable theoretically, it is demonstrated by the granite facts of the steady, if small, increase in the reserve army of the unemployed in the epoch of the upswing of capitalism, and of the constantly greater increase in the epoch of decline.\*

Even if it were true that workers displaced by technological changes

\* Technological displacement of labor added to the unemployment produced by capitalist decline in Germany, England, and other capitalist nations of Europe. An English economist says: "The introduction of new and improved methods into an industry has the immediate effect of displacing labor by enabling the industry to satisfy its market with a smaller supply of labor. . . . At any particular moment of time there is a considerable number of workers who have been displaced and who have not yet been absorbed. Hence, during a period of rapid progress, technological unemployment is abnormally high." Allan W. Rather, *Is Britain Decadent?* (1931), pp. 25-26.



and higher productivity are absorbed as output rises, great hardships would still be imposed upon them. Unless the displaced workers are absorbed by greater output in the same plant and on the same job, they lose their skills or familiarity with particular processes, the older workers are thrown upon the scrap heap, and at least an interval of unemployment must ensue. A survey in Philadelphia in April, 1929, when prosperity was still on high levels, disclosed 100,000 unemployed workers, 10.4% of the available labor force; 16% of all families were experiencing unemployment. Of these, 50% had been out of work for three months, 28% for six months, and 12% for one year or more.<sup>12</sup> Even more significant were the findings of a survey of displaced workers "to see just how many were being absorbed by American industry," conducted during the summer of 1928 in Baltimore, Chicago, Columbus, Ohio, and Worcester, Mass. The findings are here summarized:

Of 754 workers, who had been discharged during the twelve months prior to the survey, 45.5% had been unable to secure employment other than odd jobs.

Of the workers still unemployed, the majority had been out of work four months or longer: 8.4% for a year, 9.3% for eleven months or longer, and only 58.8% had been unemployed for less than six months.

Of the 54.5% who were absorbed in new jobs, only 12% had found permanent work within a month after discharge; one half had been out of work three months or longer and one-fifth six months or longer.

Of the displaced workers who found new jobs, more than one-half had to accept work other than the kind to which they were accustomed, *usually of a type where their former skills were useless*. The older workers had the greatest difficulty in finding new jobs, as it is a general policy not to employ workers who are past the age of 45.

Of the displaced workers, only 13% were absorbed in the "newer" industries or occupations—radio, gasoline stations, garages, chauffeurs, moving pictures, hotels and restaurants, beauty parlors, bootlegging.

Of the workers who found new jobs, 27.1% made about the same as in their old jobs and 18.8% made more, while the majority made less than their former earnings.<sup>13</sup>

Thus there is wanton human suffering and wastage even if the displaced workers are eventually absorbed. Workers are forced to take new jobs at lower wages. They are deprived of old skills and experience. Months and months of unemployment intervene, while

their paltry savings melt away, and the compulsion arises to accept charity. In 1927, when the Ford automobile plants in Detroit threw 60,000 workers out of work, the city was forced to spend \$1,954,000 on charity relief, more than in the two previous years combined. Henry Ford generously contributed \$175,000 and this bit of wisdom: "I know it's done them a lot of good—everybody gets extravagant—to let them know that things are not going along too even always."<sup>14</sup> And in 1928, H. W. Morehouse, president, Brookmire Economic Service, insisted that the increasing unemployment was really increasing leisure: "With such progress in well-being, no wonder some members of the family have decided to take life easier by ceasing to work."<sup>15</sup> A book by Clinch Calkins, *Some Folks Won't Work*, revealed the reality, the conditions among the unemployed *before* March, 1929, in the midst of unprecedented prosperity. It gave 300 cases chosen at random in thirty cities of twenty-three states. Let Miss Calkins speak:

"In a group of twenty men on relief work cleaning streets, fifteen had been displaced from skilled trades."

"When Riley lost his work he had no savings. The combination of four children and a peak income of \$28.50 weekly is not conducive to savings accounts or investment. . . . Just what part of the \$28.50 could the Rileys have put away in a sock? . . . So they ran into debt. They fell behind on their furniture and insurance. At first Mrs. Riley rather went to pieces and rushed about trying to get help. Then she made frantic attempts to get a job herself. Novels could be written about this particular period in unemployment—the almost invariable shift of wage-earning from the man's to the woman's shoulders because women work for less pay. . . . Finally she got work in a cafeteria from eleven to three. She was paid \$9 a week. And what wonders she did with her \$9! She slapped it on insurance. She slapped it on the rent arrears. She slapped it on the furniture instalments. . . . Then suddenly five or six of the newest comers were dismissed, Mrs. Riley among them. . . . Since then she has worked at the sandwich counter of the Five and Ten and at several obscure eating places near the docks. She received less pay and had longer hours. . . . But she had to give up even this work when Rosey, aged eight, contracted an illness which seemed directly traceable to 'poverty and makeshifts resulting from unemployment.'"

Jervis was a skilled worker, a mixer of colored inks used by lithographers; he earned the comparatively high wages of \$37 weekly, and lived in a seven-room house with his wife and four children.

"During the last lay-off, machines were installed which laid on solid colors of ink and blended them. Between October, 1928 and March, 1929 (six months), Jervis made \$100—at anything he could get—for the most part laboring and stevedoring. When their savings were gone and when they could no longer pay their rent, the Jervises went to stay for a month with friends while they located a place to live. He finally found one for \$12 a month. To meet expenses he pawned their possessions and sold their radio. The new house is one room deep, has an outside toilet, no heater, and no kitchen stove. When their case was reported, both parents and children were destitute of shoes and clothing. A city nurse obtained for them a \$3-a-week order for groceries. Fortunately for the family, Jervis was injured on his last day's work as a stevedore and went to bed with ulcerated legs and a strained back. I say fortunately, for besides medical aid the company paid him \$15 a week for indemnity."

"He was out of work for fourteen months and got so discouraged he turned on the gas." . . . "She resented her husband's idleness, said he did not try to find work. He became inert and fatalistic. They quarreled and were under constant domestic strain." . . . "Now that he has lost his work she attempts to do outside housework besides caring for her seven children. Frequently, over periods of time, she had only bread and black coffee to feed them."

The Negro worker is hardest hit by unemployment. "The Lovejoy saga is a clear case of race prejudice as such, since this family is superior both in intelligence and education to many of the white workers who have received preferment at their expense. . . . From the spring of 1928 to December, 1928, they lived mainly on an occasional day's work done either by the father and the mother and the \$2 or \$3 a week earned by George in shining shoes."

The workers, when unemployed, resort to charity only as a last resort, not until they are practically broken in body and spirit:

"Mrs. White of Philadelphia said she watched her children starving until she could not stand it any longer. Before she asked for help she undoubtedly went through the equivalent sacrifice of Fred Johnson, who, when he was accused by some one of standing on the corners with other men, was defended by his wife. He stayed there all noon, she said, for fear if he came home he would be tempted to eat what they had been able to put on the table for the children. . . . The six young Murphys of Boston are reported by their teacher as being 'soft' from lack of food. . . . The Hagers of Louisville made their savings spin for two years of unemployment and then went

without food rather than ask for charity. . . . The Browns of Philadelphia were reported by their grocer as having lived on bread and tea for six weeks. . . . An undernourished child was given by the school teacher a medicine to whet her appetite. As time went on, and she continued to give evidence that she was not eating enough, a visit was paid to her home. Then it was discovered she had little to eat."<sup>16</sup>

These are the heartbreaking accompaniments of technological unemployment, an aspect of the steadily increasing normal unemployment in 1923-29, while prosperity surged upward. (On a greatly enlarged scale they are the accompaniments of cyclical unemployment.) *"I know it's done them a lot of good."* *"Taking life easier."* . . .

The output of goods, of the means of livelihood, rose because of the higher productivity of labor, of more efficient methods of production. Simultaneously, however, the higher productivity of labor deprived many workers of means of livelihood by depriving them of employment. And industry *operated below its capacity*.

While millions of workers were unemployed there was, contrary to the earlier trend, a tendency for child labor to increase during 1927-29, when both prosperity and unemployment reached their peaks. According to Grace Abbott, Chief of the United States Children's Bureau, full-time working certificates issued to children fourteen to eighteen years old (sixty cities in thirty-three states) increased from 150,000 in 1928 to 220,000 in 1929.<sup>17</sup> Although registering a decrease over 1920, the number of children ten to seventeen years old gainfully occupied in 1930 was 2,145,000.<sup>18</sup> "The great mass of working children," according to the National Child Labor Committee, "enter occupations that are monotonous in the extreme, lacking all educative content other than a certain amount of training in habits of work. What they must do can usually be learned in a few hours or at the best a few days; after that it is a matter of repeating the same tasks over and over again. Such a procedure involves more than the usual waste during the years when mental growth and acquisition are at their highest and offers a poor substitute for the training and self-expression of school life."<sup>19</sup> Many children were forced to work because of the technological displacement of their fathers. And the number of working children was about equal to the number of unemployed adults.

Another result of the higher exploitation of labor, besides the augmenting of normal unemployment, was a tendency for accidents to



increase in many industries. One method of raising the rate of exploitation is to make labor more productive by the introduction of more efficient equipment. Another method is the intensification of labor: the use of speedier and more complicated machines and more speed-up, multiplying the pressure on the muscle and nerves of the worker. Work tended to become more dangerous. . . . From 1922 to 1925, in thirty-four industries employing 254,529 workers, output per worker rose 14.4% and the accident severity rate 2.5%. . . . In 1925-26, eighteen out of twenty-four industries, employing 1,000,000 workers, had a rising accident severity rate. . . . In 1929, plants reporting to the National Safety Council had a small decrease in accidents but a small increase in the fatality rate. . . . Industrial accidents in New York State rose from 346,000 in 1922-23 to 518,000 in 1926-27; in 1929 there were 20,000 more compensatable accidents than in the previous year. . . . In this state's building trades the rise in accidents was much greater than in employment—from 10,000 in 1923 to 21,600 in 1927. . . . The fatality rate in coal mining in 1921-25 was 2.73 per 1,000 employed workers; it was 3.32 in 1926, 2.94 in 1927, and 3.19 in 1928; or, on another basis, the fatality rate rose from 3.93 in 1916 to 4.54 in 1929. . . . The risks of the American coal miner (and of the worker in general) are infinitely greater than those of the European. In 1929, the death rate per 1,000 full-time 300-day workers was 4.54 in the United States, 2.19 in Prussia, 1.31 in England, 1.29 in Belgium, and 1.15 in France. And the natural conditions in mining are more favorable in the United States than in Europe. . . . The iron and steel industry is usually considered a "model" of accident prevention work. Yet, while the frequency rate fell in 1920-29, the fatality rate was stationary and the permanent disability rate rose. . . . In 1928, according to the National Safety Council, there were 24,000 fatal industrial accidents and 3,250,000 non-fatal. . . . Managements are directly responsible. Not more than 10% of industrial enterprises are members of safety organizations. In 1928, the American Gas Association sent an accident questionnaire to its members, but the great majority did not reply. . . . Safety devices multiply but employers refuse to spend the necessary money. The high accident rate in the New York building trades is due, according to the Industrial Commissioner, mainly to defective equipment and the disregard of safety devices by employers. In the electric power industry the most important safety devices are not being introduced because of the cost. Safety engineers are usually limited in their efforts by considerations of output, costs, and profits. . . . The responsibility was



placed squarely upon management by H. W. Heinrich, of the Travelers Insurance Company, who completed an analysis of 73,000 industrial accident cases, 10,000 from records of his company and others from the records of plants. His conclusion was that 98% of all accidents are preventable; only 10% were due to physical or mechanical hazards, while 88% were due to neglect by management. . . . In one of its reports the United States Department of Labor said: "*All American industry has been much influenced by the effort for increased production. The speeding up has not been accompanied by an equally intense effort toward accident prevention.*"<sup>20</sup>

The tendency for accidents to increase in many industries was a reversal of earlier trends.\* It may become more marked; for, as the mass of profits tends to fall, employers will introduce more speed-up and will be more unwilling to pay for safety devices.

But the increase in unemployment was not a reversal. It merely strengthened the tendency of capitalist industry to augment unemployment. And this *must* become more marked under the conditions of the decline of capitalism.

\*In Germany, where rationalization raised productivity as much as in American industry, there was a similar intensification of labor and an increase in accidents. "Labor expressions of opinion on these problems have been particularly outspoken, critical and bitter. Mechanization and speeding of work routines are held to have increased fatal, major and minor accidents and the number of persons suffering from industrial diseases. Speeds are adjusted without regard to cumulative fatigue, and the killing pace which workers must keep shortens their life cycles and throws them into the discard at an early age. Injuries reported have steadily increased as output per worker, indicating greater productivity through rationalization, has risen." Output per worker rose from 100 in 1924 to 140 in 1929; the number of workers injured per 100 rose from 6 to 10, an increase of 66.6%. "The data given by both industrial and professional classifications in the *Statistisches Jahrbuch* show, in nearly all cases, increases in accident rates between 1927 and 1928. Estimates for 1929 are still higher. In all cases the post-war figures are much larger than those for 1913." Robert A. Brady, *The Rationalization Movement in German Industry* (1933), pp. 346-48.

## Disemployment and Surplus Population

IN the past, industry absorbed more workers than it displaced, and employment rose steadily. This historical fact is used as an argument against the *contemporary* fact of increasing unemployment. Since the industrial revolution, it is argued, technological change has created new industries and a multitude of new jobs; although there was in 1920-29, a small displacement of workers, the total of employed workers was greater in 1929 than in 1899. While "the expansion of old industries," according to one economist, writing in 1929, "is not sufficiently rapid, apparently, to absorb the rising generations, up to the present time the increase over and above those absorbed by the old callings has been taken up by the new industries."<sup>1</sup> The increase in unemployed workers is temporary: they will be eventually absorbed by renewed expansion. So runs the apology.

But what has been need not always be. The theory that workers displaced by machinery are absorbed by new occupations was formulated a century ago, when capitalism was at the beginnings of its great expansion, of an immense upward movement in production. Now capitalism is in the epoch of decline, of a downward movement in production. This fundamental fact must influence all interpretation of former experience. Moreover, *even in the epoch of the upswing of capitalism there was a definite tendency for unemployment to increase*. In the United States, from 1865 on, constantly greater cyclical and normal unemployment tormented the workers. Prosperity prevailed in 1889 and 1899, yet unemployment among workers in manufactures, transportation, and the building trades rose from 5.6% to 7%.<sup>2</sup> And in the following years the percentage of unemployed workers rose steadily, both in prosperity and depression (Table III). In spite of greater talk of "stabilizing" employment (as if words become deeds by the sheer magic of words!) there was greater unemployment. In the two periods of prosperity immediately preceding the World War, unemployment, both absolute and relative, rose. It fell only slightly during the war years, in spite of conscription and the mobilization of industry. Unemployment in periods of depression showed the greatest increase, rising from 10.7% in 1907-09 to 15.9% in 1914-15.

TABLE III

*The Upward Trend of Unemployment, 1900-33*

YEARS	CHARACTER OF PERIOD	YEARLY AVERAGE OF WORKERS * UNEMPLOYED	PERCENT OF WORKERS * UNEMPLOYED
1900-06	Prosperity	657,000	7.6
1907-09	Depression	1,091,000	10.7
1910-13	Prosperity	877,000	7.9
1914-15	Depression	1,860,000	15.9
1916-20	Prosperity	817,000	6.4
1921-22	Depression	2,625,000	20.7
1923-26	Prosperity	1,149,000	9.0
1927-29	Prosperity	1,250,000	9.5
1930-33	Depression	5,400,000	35.2

\* Includes workers in manufactures, coal mining, railroads, and the building trades.

Source: 1900 to 1926—computed and rearranged, according to cyclical periods, from statistics in Paul H. Douglas, *Real Wages in the United States, 1890-1926*, p. 460; 1927 to 1933—computed on the basis of statistics in Tables II and IV.

Usually unemployment was ascribed to unrestricted immigration, which had been so important in American expansion. Yet after the war, when immigration, now no longer economically necessary because of a declining rate of expansion, was severely restricted, normal unemployment increased more rapidly than in the pre-war years. In the depression of 1921-22, unemployment was twice as high as in the depression of 1907-09 and nearly 50% higher than in that of 1914-15. Normal unemployment rose to 9% in 1923-26 and 9.5% in 1927-29, an increase of one-fifth over the two pre-war periods of prosperity. The absolute number of unemployed workers in the prosperity years 1923-29 was greater than in the 1907-08 depression. Average yearly unemployment during 1920-26 was 12.1% of the available workers, considerably higher than the 10.2% during the years 1897-1926.<sup>3</sup> And for the four depression years 1930-33 average yearly unemployment rose to 35.2% of the available industrial workers, over three times as much as in 1907-09 and nearly twice as much as in 1921-22. . . .

The accelerated increase of normal unemployment in 1920-29 was the result of a fundamental change in the American economy: *for the first time the rise in the productivity of labor was greater than the rise in production.* This condition is the basic cause of an absolute displacement of workers.

A definite, if proportionally changing, relation exists between em-

ployment and the productivity of labor and output. An increase in productivity must be matched by a corresponding increase in output, otherwise there is an absolute displacement of workers. But where formerly an X% increase in output was enough to absorb a certain number of new workers, now, because of the higher productivity of labor, a still greater increase in output is necessary. Production must grow faster than productivity.\*

If *output* rises *more* rapidly than the productivity of labor, there is a relative but no absolute displacement of workers. The theoretically displaced workers and new workers in addition are absorbed by the expansion of production. (It also makes possible higher wages and shorter hours.) Because the increases are not proportional, normal unemployment tends to rise, but not much. This is the epoch of the upswing of capitalism.

If, however, the *productivity of labor* rises *more* than output, the tendency is toward an absolute displacement of workers. There is an expansion of production, but not enough to absorb all the workers displaced by higher productivity *plus* a part of the newly available workers. Normal unemployment rises more rapidly.

If productivity rises more than output and, in addition, the movement of production is downward, workers are displaced both by higher productivity and lower output. Normal unemployment becomes constantly greater. (Wages tend toward lower levels; and while hours of labor may not be lengthened, they are at least not shortened in accord with technical-economic possibilities.) This is the epoch of the decline of capitalism.

From 1899 to 1919, and in earlier years, output rose more than the productivity of labor. In manufactures, in 1899-1909, the increase in output was 59%, in productivity only 16%; 2,182,427 new wage-workers were absorbed. For the whole period 1899-1919, the increase in output was 59%, in productivity only 16%; 2,183,427 new wage-workers were absorbed.<sup>4</sup> There was a similar trend on the railroads.

\* Production, of course, includes the new industries. For the sake of simplification, the factor of the distributive and service trades is excluded. Employment in these trades tends to increase much more than in directly productive occupations (a great part of it is wholly useless and parasitic). But the increase, as shown in 1923-29, is not great enough to absorb all the available workers. In any event, employment in the distributive and service trades is dependent primarily upon production, which supplies means of livelihood for all occupations. As a sop to its supporters, fascism tends to increase arbitrarily the number of non-productive jobs; but this also is not enough to absorb all the unemployed, there are definite limits to the creation of such jobs, and they multiply the burdens imposed upon the workers employed in productive work.

In agriculture the movement of productivity and output was such that only a small number of new workers was absorbed, while in mining (exclusive of oil wells) there was a small absolute displacement. The expansion of production was enough to absorb most of the available workers; there was only a small rise in normal unemployment.

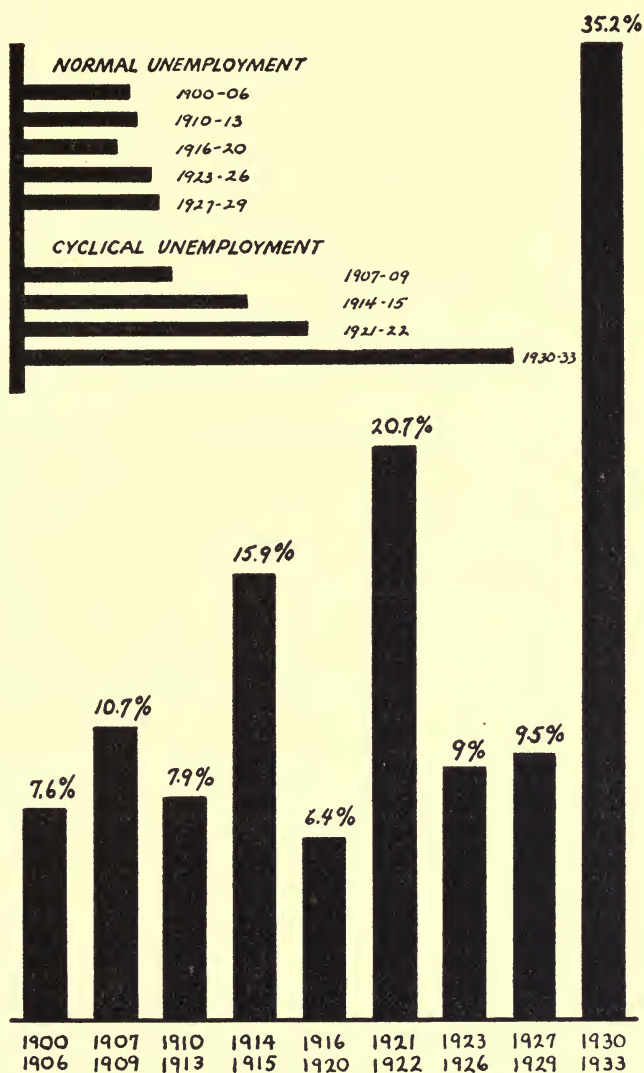
This relation was, however, completely reversed in 1919-29: *the productivity of labor rose more than output*. The rise in the productivity of labor in manufactures was over 40%, in output only 38%. Productivity rose 12.5% and output 2.5% on the railroads, and 30% and 20% respectively in agriculture. There was a similar tendency in mining. As the expansion of production was smaller than the rise in the productivity of labor, an absolute displacement of 1,155,000 workers, wage and clerical, took place. Displacement was most severe in agriculture; in this industry, for the whole period 1899-1929, productivity rose over 61% and output not much more than 56%.<sup>5</sup> The expansion of production was great (although the rate of increase was smaller than in 1900-14), but it was not enough to absorb any new workers or even all of the displaced workers; hence normal unemployment rose considerably.

Under capitalist conditions, an expansion of production depends upon an increasing output and absorption of capital goods. It depends, in other words, upon an increasing accumulation of capital; this means that a constantly greater proportion of the workers are employed in the capital goods industries. But these industries, because of the higher productivity of labor, displaced a large number of workers in 1919-29, although the rate of increase in their output was greater than in pre-war years. There was a similar displacement in mining. Construction augmented its labor force by 320,000 workers. In all branches there was a small net loss of workers in the production of capital goods. And the higher composition of capital, made possible by the greater output of capital goods, displaced many workers in the industries producing consumption goods.\*

In most of the European nations normal unemployment was augmented both by the increasing productivity of labor and the downward movement of production. . . . The tendency for productivity to outstrip production was already manifest in the pre-war years. Thus in Great Britain, in 1907-13, output in basic industries rose 7% and trade-union employment only 0.5%. . . . In the pre-war

\* This subject is discussed more fully in Chapter XVI, "The Economics of Technology."





XI. UPWARD TREND OF UNEMPLOYMENT—1900-33.

years, British unemployment averaged 500,000, or 5%, yearly; it was 1,450,000, or 12%, in the post-war years (before 1929). The output of mines and quarries was slightly higher in 1930 than in 1925, but 20% fewer workers were employed. In ten industries, an 11% increase in output was accompanied by an 8% decrease in workers. The element of British economic decline appears clearly in the fact that the number of workers employed in the export industries was 2,465,000 in 1907, 2,485,000 in 1924, and 2,000,000 in 1930; their proportion to the total workers in manufactures fell from 44% in 1907 to 38% in 1924 and 33% in 1930. . . . Trade-union unemployment in Germany rose from a yearly average of 2.3% in 1907-13 to over 11% in 1923-27, and from 11.1% in 1927 to 20.7% in 1929. The former relation between productivity and output was reversed. Productivity rose 23% in the "boom" years 1925-27, and output 24%. In 1930, of 1,500,000 unemployed workers, 1,000,000 had been displaced by the higher productivity of labor and 500,000 by the lower level of production. . . . In the prosperous year of 1929, according to the International Labour Office, 3,258,000 workers were unemployed in Germany, Great Britain, and Italy. Total unemployment in the capitalist nations of Europe rose from 3,616,000 in 1923 to 4,330,000 in 1929, an increase of 20%.<sup>6</sup> . . . But the official unemployment figures are underestimates. Some include only those "on relief," others only those registered at the labor exchanges. It is probable that over 4,000,000 workers were unemployed in Britain, Germany, and Italy, and 6,000,000 in all Europe.

The same factors underlying the increase in normal unemployment also produce an increase in cyclical unemployment. The tendency of productivity to rise more than output is aggravated by industrial breakdown. In Germany, the productivity of labor was 17% higher in 1932 than in 1929, and output 40% lower. In the United States, according to the National Bureau of Economic Research, productivity per man hour rose 12% in 1929-32.<sup>7</sup> Workers were thrown out of work both by the higher productivity of labor and the lower level of production. The output of capital goods, whose decreasing rate of labor absorption accelerates the rise in normal unemployment, now falls more in depression than formerly because of higher productivity, the more disastrous nature of cyclical breakdown, and the lower demand for capital goods. And the output of luxury and durable consumption goods, upon which prosperity increasingly depends, falls in depression in about the same ratio as the output of

capital goods. Thus, as prosperity becomes more unstable, depression tends to become more severe.

The depression which set in after 1929 augmented unemployment steadily and on an unprecedented scale.\* During 1932, average unemployment in Germany affected 5,579,858 workers, 30.2% of the available labor force; of the trade-unionists 43.8% were wholly unemployed and 22.6% partly unemployed. In Great Britain 2,272,590 workers or 17.6% were wholly unemployed, and 573,805 workers or 4.5% partly unemployed. Fascist Italy, whose statistics are notoriously unreliable, officially admitted the existence of 1,040,910 jobless workers. In all of capitalist Europe, average unemployment during 1932 was 12,178,000, exclusive of part-time workers. But these are the official figures, which are not inclusive. In Germany, for example, there were in December, 1932, probably 3,400,000 unregistered unemployed.<sup>8</sup> Actual unemployment in Europe was over 20,000,000. Never before had cyclical depression afflicted such a large proportion of the working population.

Still greater was the rise of unemployment in the United States. During 1930, when, because of the illusions of prosperity everlasting, the masters of industry, finance, and politics simply couldn't believe there was a depression, unemployment rose to 5,000,000, compared with half that amount in 1929. It kept on rising. In manufactures alone there were 2,327,000 fewer workers employed in 1931 than two years earlier,<sup>9</sup> while total unemployment rose to 8,250,000. But

\* Except in the Soviet Union, which passed through the "years of world depression apparently with comparatively small loss, continuing, indeed, to new and greater gains. . . . Standards of living are debatable, always, but in the present instance can hardly be considered as other than improved. The average real wage of the industrial worker certainly has been improved and that with the hours of work reduced. . . . The result of the experience of Soviet Russia would seem to be primarily twofold: the leveling of distribution and a new control over economic forces. It is not argued that the effects of the world depression have not been felt there. Most certainly they have been, but not in the production processes, nor in employment; wages, also, have been maintained and increased" Susan M. Kingsbury and Mildred Fairchild, "Employment and Unemployment in Pre-War and Soviet Russia," World Social Economic Congress, *International Unemployment* (1931), p. 421. It is often said: "Of course the Soviet Union has no depression and no unemployment; that country is industrializing itself, and work is more plentiful than workers." This is an obviously wrong argument. Every capitalist country has had depressions and a resulting increase in unemployment during its period of industrialization: in the United States there were three major depressions from 1837 to 1873. The element of socialist planning and control makes the difference. Cyclical crisis and breakdown is a function of the contradictions and antagonisms of capitalist production, *not* of industrialization (or of industrialism itself).

this was only a midway point. By the spring of 1933, the lowest depth of the depression, unemployment in all occupations had reached the staggering total of 17,252,000 (Table IV), an increase of 14,750,000 over 1929. The blight of unemployment fell upon 35% of the gainfully occupied: 14,252,000 or nearly 50% of the wage-workers, 2,000,000

TABLE IV

*Unemployment, All Occupations, Spring, 1933*

GROUP	UNEMPLOYED
Manufactures	4,561,000
Transportation*	1,684,000
Building Trades*	2,057,000
Mining*	524,000
Agriculture	1,786,000
Trade	1,613,000
Personal Service	1,692,000
Professional Service	363,000
All Other	972,000
<hr/>	
Total	15,252,000
Additional	2,000,000
<hr/>	
Grand Total	17,252,000

\* These classifications differ from those in previous tables. Transportation includes telephones and telegraph, garages, service stations, street railways, and buses; building trades includes workers who are not engaged directly on new construction; mining includes oil and gas wells.

Source: For November, 1932 *Business Week* (January 18, 1933) estimated unemployment at 15,252,000. But its starting point was a Federal Census estimate of unemployment (3,700,000) for April, 1930, which was too small by about 750,000. And *Business Week* made no allowance for new workers seeking employment, which may be conservatively estimated at 750,000. An additional 500,000 is included to allow for the increase in unemployment from November, 1932 to March, 1933. These revisions would raise the number of unemployed in professional occupations to 500,000.

or 40% of the clerical workers, and 500,000 or 15% of the persons in professional occupations. (Unemployment among professionals is not a complete measure of their plight, as those independently occupied, such as architects, physicians, and dentists, might not be unemployed and yet suffer keenly from the depression.) Just as normal unemployment in 1923-29 was greater than in any previous period of prosperity, so cyclical unemployment was greater than in any previous depression. This is progress in the epoch of the decline of capitalism.

In addition to wholly jobless workers, other millions were working only part time. This was due to the generosity of employers, who "made" work by "staggering" and "spreading" employment, thereby throwing the burdens of the crisis upon the employed workers. In January, 1933, 20% of the members of the American Federation of Labor were working part time.<sup>10</sup> The animus of the employers was thus frankly admitted by Virgil Jordan, editor of *Business Week*: "The spread-work movement will probably gain momentum as a means of shifting the burdens of unemployment relief from income to wages."<sup>11</sup>

Because of the severity of the crisis (typical of the decline of capitalism), unemployment swooped down mercilessly on professional and clerical workers. . . . A survey by Columbia University in 1933 showed unemployment as high as 98% among architects, 85% among engineers, and 65% among chemists. . . . Five societies of engineers in 1931 formed a national committee to aid their jobless; within one year they had spent \$441,737, of which \$307,119 was in the form of wages on "made" work paid for by semi-public bodies, the balance in cash, old clothes, and other relief. . . . Unemployment was intensified among musicians, 9,885 or 50% of whom had been displaced in motion picture theaters by the sound films. . . . In New York City, 40% of those seeking jobs from the Emergency Work and Relief Bureau were "white collar" workers, including executives, technicians, statisticians, editors, efficiency experts, engineers, and personnel managers. . . . An executive of a New York employment agency said in 1932: "Employment conditions among 'white collar' women are so appalling this fall that I haven't the heart to think about them from a statistical angle." . . . A survey in 1933 of 3,000 charity patients in New York City hospitals showed that 175 were professional workers and 430 clerical workers, a greater proportion than in previous years of patients who are called the "new poor."<sup>12</sup> . . . The tremendous increase in the number of jobless "white collar" workers is not only a necessary result of greater unemployment among wage-workers, upon whose employment, in final analysis, depends the employment of "white collar" workers. Their situation is aggravated by the overcrowding of clerical and professional occupations, a condition which developed ominously during the pre-1929 prosperity. The "scarcity value" of the "educated" workers is no more; for, turned out by mass production methods, their numbers increase while the opportunities of finding work decrease.

The need for relief was great. . . . In October, 1930, President



Hoover at the convention of the American Federation of Labor condemned unemployment insurance as involving "doles of various kinds which limit the independence of men." The condemnation, according to the *New York Times*, "was particularly pleasing to some of the Federation leaders, who are opposed to compulsory unemployment insurance under Federal or state supervision." . . . Three days later, William Green, the Federation's president, urged government officials to prepare winter relief for the unemployed. And Hoover set machinery in motion to "coordinate" relief in the form of charity. No doles! . . . It was charity of the most demoralizing kind. . . . Arthur Woods, chief of the President's Emergency Committee for Unemployment Relief, broadcast appeals for money: "Increased funds for local relief are needed if human misery is to be prevented. Hospitals and dispensaries must receive more free patients; children's organizations will be crowded as broken homes are increasing." (In New York City, in 1930, evictions increased 30%, children in institutions 12%, and foundlings 100%.) . . . Workers, with lower earnings, were forced to contribute to money-raising drives, public school teachers to pay for free lunches to children. . . . For the first time women and children appeared in breadlines. "We must," urged Grace Abbott of the United States Children's Bureau, "get the children out of the breadlines." . . . Two years later she added: "Relief agencies have been unable to meet the needs of those dependent in cities and towns and able to give little or no assistance to small mining communities, where undernourishment among children is widespread." . . . Relief was niggardly, ungracious, humiliating. . . . It was particularly so in the case of Negroes and "aliens." The aliens were thrown out of jobs, denied relief. In New York City, the Emergency Work Bureau discouraged the registration of Negroes, and few of those who registered got jobs. . . . Needy families were told to go to the police, who gave them a basket of food once a week, old clothes, occasionally some money for rent. . . . Charitable persons organized more, bigger, and better breadlines. . . . Hotels, restaurants, and produce merchants gave waste food to the needy, and bakeries gave stale bread. . . . Garbage cans were ransacked at night. . . . One man made it a business to hand out a batch of nickels to applicants and the advice: "Have the will to do, have patience, have hope, place your faith in God, and you will come out on top." . . . Unemployed workers sold apples on the streets of New York, and wholesale prices went up in a few days. . . . Well-to-do women (some of them!) made clothes for the children of the unemployed.

. . . The President's Emergency Committee for Unemployment Relief made much pother about "providing employment"—the old, old appeal to "make" work. . . . Employers were begged to "stretch matters a little to give added employment for a few months at least." This was done by "spreading" work, taking from one worker to give to another. . . . Corporations announced proudly that they would not discharge any workers; investigation revealed they had either had no decrease or an increase in business. . . . Department stores "helped" by advertising that they had hired new salespeople—during the few days of a special sale, workers they would have hired anyway. . . . The housewife was asked to "study her budget, find out what she can afford to do in the matter of advancing work to be done in her home, and then have it attended to immediately." . . . Rich men were implored to build rock gardens and yachts to "make jobs" and revive prosperity. . . . Some unions made their working members take time off one or two days a week to make work for the unemployed. . . . The Federal government rejected pleas for direct relief to the jobless workers. It was contrary to the American traditions of rugged individualism. (Apparently rugged individualism was not menaced by the doles of local government relief and charity.) The government instead issued considerable publicity on new public works construction, adding, however, that "a long time is required to prepare construction work." . . . By January, 1932, millions were starving or approaching starvation, 500,000 in Chicago alone. . . . Meanwhile the unemployed were becoming more and more resentful, more and more desperate. Demonstrations of the jobless, in many of which the communists had the leadership, broke loose all over the country. . . . They were met with the hatred of the well-to-do. The workers in one such demonstration in Seattle were called "bums" by a prominent businessman, "hobos" by a lady active in social affairs, and "criminals" by a millionaire factory owner in an address to his employees. . . . Henry Ford said: "Men who want work can get it." . . . The communists, whose idea spread, started the Unemployed Councils, to carry on an aggressive struggle for relief and social insurance; organized state and national hunger marches, dramatized the plight and will to struggle of the unemployed. . . . Demonstrations and hunger marches were answered with clubs, bullets, and tear gas, brutally revealing the repressive class nature of the state. . . . The Federal government deported 18,000 aliens in 1931, many of them because they were radicals or took active part in demonstrations and strikes. . . . The upflare of lynchings of Negroes in the South was

not disconnected with the depression and unemployment. . . . Farmers organized resistance to foreclosures, went on strikes, demanded moratoriums on debts and the end of foreclosures, tax sales, and evictions. . . . In 1931, the Illinois National Guard issued the following document to its members: "Blank cartridges should never be fired at a mob. When troops of the National Guard are ordered on active duty to suppress domestic disorders, *under no circumstances will blank ammunition be issued to them. Never fire over the heads of rioters.* The aim should be low, with full charge and the battle sight. Officers and men should not fear reprisal in case one or more people are killed. Officers of troops aiding civil authorities should not permit the latter to indicate *how their duties should be performed.*" . . . A survey by the United States Public Health Service showed that in 1932 one-fifth of a representative group of wage-worker families were "on relief." It was niggardly enough, this relief: some jobs on "made" work, some food, some rent money; and many didn't even get that. . . . According to the Children's Bureau, one-fifth of the children in the country "are showing the effects of poor nutrition, of inadequate housing, of lack of medical care, of anxiety and insecurity. In some regions, without question, the proportion of below par children is far greater, reaching truly appalling figures." . . . Conditions among the unemployed had become unbearable by 1933. In January, William Green denounced "the money-fat enemies of America, who, through one device or another, have wrung from the people such a proportion of the fruit of their toil that they are stranded in a motionless sea of depression. After three years of suffering we, the organized workers, declare to the world: 'Enough. We shall use our might to compel the plain remedies withheld by those whose misfeasance has caused our woe.'" . . . All Green asked was a small Federal relief appropriation. But such talk by a conservative labor leader was a reflection of the underlying resentment and pressure of the masses. . . . The efforts of the government, of Niraism, to "revive" industry in 1933 by pouring billions into private enterprise had to include some measures of aid for the unemployed. The masses were desperate. The sight of billions going to corporations and nothing to themselves would inflame their desperation. Moreover, local governments, which had borne the burden of what relief there was, were virtually bankrupt; Federal aid for the unemployed was in a sense a measure of financial relief for the local governments. . . . In October, 1933, according to the Federal Emergency Relief Administration, 3,143,678 families were "on relief," 12,500,000 persons, including 5,500,-

ooo children. Millions more were on local relief or no relief at all. And the Federal appropriation for relief was a small part of the billions spent by Niraism.<sup>13</sup>

Employment reached its lowest point in March, 1933. It rose thereafter because of the inflationary stimulus to production, and reached a high point in July; but output and profits rose more than jobs and wages. After July, the NRA got into action, and there were some small gains in employment. But by November only 3,500,000 more persons were at work than in March. Nearly all the increase under NRA, moreover, was mere "spreading" of work. Employment in the iron and steel industry was higher in October than in preceding months, but hours worked decreased and average monthly earnings were only \$91. In 312 New England factories, 90% operating under NRA codes, employment rose 20.7% from June to October, but man hours rose only 1.3% and average weekly hours worked decreased 16%. And in New York City, according to the NRA Administrator, employment rose 20% from August 1 to November 1, but payrolls rose only 13%, indicating an increase in part-time work (and lower wages). Then employment again slumped disastrously. From mid-October to mid-November 580,000 workers lost their jobs, 330,000 in manufactures alone. In December the United States Department of Labor reported a decrease of 113,000 workers in manufactures; and the Department's survey includes less than half of the manufacturing industries. *The percentage of decrease was greater than the average for the ten-year period 1923-33.* The rise in total employment dwindled to less than 2,500,000. *All the gains made after the NRA got into action were wiped out. And average unemployment was higher in 1933 than in 1932.* According to the American Federation of Labor it rose from 11,489,000 to 11,888,000.<sup>14</sup> (These figures minimize total unemployment; they underestimate the number of the jobless in 1930, the starting point of the calculation, the increase in newly available workers, and the unemployment in agricultural and professional occupations.) In January, 1934, over 15,000,000 persons were still unemployed, including those engaged on temporary "made work" provided by the Civil Works Administration as a substitute for direct relief.

The unprecedented mass of cyclical unemployment, its great relative increase over previous depressions, and the inability to restore prosperity on any considerable scale, all indubitably forecast a tremendous rise in normal unemployment. Productivity is growing at an accelerated rate. The National Bureau of Economic Research esti-



mates that man-hour productivity rose 12% in 1929-32 compared with only 7% in 1927-29.<sup>15</sup> In some cases the increase is much greater; thus man-hour output in the manufacture of pneumatic tires was 34% higher in 1931 than in 1929.<sup>16</sup> *Total average unemployment in 1933 was 4% higher than in 1932, yet, according to the Federal Reserve Board, production and trade rose 10%.*<sup>17</sup> The displacement of labor goes on; and as the tendency of production must be downward after revival, while productivity moves upward, absolute displacement will take place on an increasingly larger scale. One estimate is that if production in 1934 reaches the 1923-25 level, with the average work week reduced to forty hours and no further rise in the productivity of labor, 12,200,000 wage and clerical workers will still be jobless, a total which may be reduced by part-time work; if the 35-hour week is introduced, the unemployed will still number 9,000,000, which would become greater if the productivity of labor rises.<sup>18</sup> If production reaches the 1929 level, 4,000,000 workers, according to General Hugh Johnson, NRA Administrator, will still be jobless.<sup>19</sup> But that is an underestimate. It forgets that the unemployed workers in 1929 numbered 2,500,000, and makes too small an allowance for the rising productivity of labor and the new workers coming into the labor market. Production at the 1929 level, not an immediate expectation, would involve the unemployment of 7,000,000 to 9,000,000 workers.\*

It is absolutely certain that there will be a tremendous increase in "normal" unemployment. The surplus population must grow, an increasing mass of workers for whom capitalist production cannot pro-

\* The social-economic losses of unemployment are tremendous. A worker in manufactures in 1929 produced \$5,330 (unduplicated value) worth of commodities. If, in 1923-29, 1,000,000 of the unemployed workers had been put to work on some of the unused capacity, they would have produced an output of \$37,000 million. If 500,000 more workers, who were available, had been working on construction, they would have produced around \$7,500 million (excluding value of materials) of new housing. If in 1930-33 manufactures had employed 4,000,000 unemployed workers, they would have produced an output of \$60,000 million. Unemployed construction workers involved loss of an output of \$15,000 million. This rough calculation indicates a wastage, in 1923-33, of \$120,000 million in goods which might have been produced. That is two and one-half times the combined value of manufactures and construction in 1929. And it does not include services which might have been performed. Nor other forms of waste. There is tremendous waste in the production of useless and shoddy goods and services, and in the growth of non-productive occupations; millions of workers might be released for socially useful labor. And it is notorious that capitalist industry, in spite of its excess capacity, does not always utilize the newest and most efficient technology. The social-economic losses of unemployment become increasingly greater in the epoch of the decline of capitalism. Industry can easily wipe out poverty; capitalism retains the abomination.



vide work. Marx thus described the underlying causes of the surplus population:

"The working population, while effecting the accumulation of capital, also produces the means whereby it is itself rendered relatively superfluous, is turned into a relatively superfluous population; and it does so to an ever increasing extent. . . . The supplementary capital formed in the course of normal accumulation serves chiefly as means for the utilization of new inventions and discoveries, especially of advances in industrial technique. But, as time passes, the moment necessarily comes when the old capital renews its head and limbs, sheds its skin, and is reborn with a perfected technique, so that a comparatively small quantity of labor will thenceforward suffice to set a comparatively large quantity of machinery and raw materials in motion. . . . The supplementary capital formed in the course of accumulation attracts fewer and fewer workers; the old capital, periodically reproduced with a new composition, tends more and more to repel workers whom it used to employ. . . . The demand for labor falls progressively as the total capital increases. . . . An accelerated accumulation of that capital (accelerated in geometric proportion) is needed to absorb an additional number of workers, or even, on account of the continuous metamorphosis of the old capital, to keep in employment those already at work. . . . Capitalist accumulation constantly produces, and produces in direct proportion to its energy and its extent, a relatively redundant population of workers—a surplus population . . . promoting capitalist accumulation and indeed a necessary condition of the existence of the capitalist method of production.\* It forms an available industrial reserve army which belongs to capital for its own varying needs in the way of self-expansion . . . an ever-ready supply of human material fit for exploitation. As accumulation proceeds, and as the accompanying development in the productivity of labor takes place, capital's power of sudden expansion grows. . . . The mass of social wealth, become superabundant owing to the advance of accumulation, and transformable into additional capital, urgently seeks investment, either in old branches of production for whose products the market has suddenly expanded, or else in newly formed branches the need for which has grown out of the development of the old ones. In all such cases, it is essential that there should be a possibility of providing great

\* Marx quotes David Ricardo: "The same cause which may increase the net revenue of the country, may at the same time render the population redundant, and deteriorate the condition of the laborer." With increase of capital "the demand for labor will be in diminishing ratio." Marx, *Capital*, v. I, p. 697.

masses of workers whose activities can be engaged at the decisive points without any interruption in the work of production in other spheres. . . . A sudden and fitful expansion is a prelude to equally sudden and fitful contractions. The latter, in turn, evoke the former; but the former, the expansions, are impossible unless there is available human material, unless there has been an increase in the number of available workers irrespective of the absolute growth in population. This supply of available human material is dependent upon the simple fact that some of the workers are continually 'being set at liberty' by methods which reduce the number of employed workers. . . . The production of a relatively superfluous population has become an indispensable condition of modern industry. The greater the social wealth, the amount of capital at work, the extent and energy of its growth, and the greater, therefore, the absolute size of the proletariat and the productivity of its labor, the larger is the industrial reserve army. The available labor power has its extent promoted by the same causes which promote the expansive force of capital. Consequently the relative magnitude of the industrial reserve army increases as wealth increases. But the larger the reserve army as compared with the active labor army, the larger is the mass of the consolidated surplus population, whose poverty is in inverse ratio to its torment of labor. Finally, the larger the Lazarus stratum of the working class and the larger the industrial reserve army, the larger, too, is the army of those who are officially paupers." <sup>20</sup>

Marx added: "This is the absolute law of capitalist accumulation. Like all other laws, it is modified by numerous considerations." The most important consideration is the *rate* of expansion in production. (Another consideration is the growth of non-productive occupations.) If, as in the epoch of the upswing of capitalism, production rises more than the productivity of labor, the surplus population grows, but slowly. It grows rapidly in the epoch of the decline of capitalism, because the rate of expansion in production falls while productivity rises; and it grows still more rapidly if there is an absolute downward tendency in production.

The Marxist theory of an increasing surplus population was (and is!) scorned by bourgeois economists, by the post-Ricardian epigones. "Look," they said, "look at the constantly greater number of workers." But they ignored the increase in normal unemployment, in the insecurity of work. Now the surplus population is so large that it *must* be recognized and dealt with. In 1932, the British Royal Commission on Unemployment Insurance admitted the existence of "an element

of unemployment that is not temporary and will not disappear with trade revival." It used such phrases as "persistent unemployment," "redundant element of workers," "surplus labor," and "excess of workers." It accepted the fact of permanent unemployment:

"Until 1928 the view was taken that all or most unemployment was due to trade depression of the ordinary type. Had this been the case, its duration would have been limited, its incidence would have been limited. . . . It is now clear that the greater part of the unemployment of the period 1923 to 1929 was not due to trade depression, but was of a more persistent character due to causes that were not transient. . . . It is, of course, true that the present depression has involved workers who have every prospect of re-employment when industry generally improves. . . . But the difference remains that the unemployment caused by trade depression will pass, while the other unemployment will persist when trade improves, as it persisted through the good years 1924, 1927 and 1928 . . . associated with some more permanent condition of British industry."<sup>21</sup>

The Commission on Unemployment Insurance estimated, for seven industries with one-quarter of all the insured workers, an excess of from 395,000 to 718,000 workers (out of a total of 3,264,000). It foresaw the more or less permanent unemployment of 3,000,000 workers. The Commission proposed, and the British government has since substantially accepted the proposal, to "reform" the unemployment insurance system, which has broken down because of the increase in "redundant" and "excess" workers. The insurance system is to be made self-supporting: *it is to cover only employed workers who are temporarily unemployed and only for so long a period as they have paid for with contributions to the insurance fund; all other jobless workers, the great majority, are to go upon poor relief.* Even before the adoption of the new system, "reductions in, and disallowances of, benefits" had, according to the minority report of the Unemployment Commission, "caused a great increase in pauperism and vagrancy."<sup>22</sup> "The larger," in the words of Marx, "is the army of those who are officially paupers." This is also true of Germany, Italy, and France, where most of the aid for the unemployed is on the basis of poor (very poor!) relief. Unemployment insurance in Germany is insignificant in comparison with "emergency relief" and "poor relief." An unemployed worker must "prove" his right to relief, which was always small and is still smaller under the brutal Hitler régime. In England, where relief allowances are a bit larger than in the other three nations, the minimum diet prescribed by the government for an unemployed

worker is *less* than that for soldiers and convicts; and in many areas, the food expenditures of unemployed and part-time workers are far below even the government's low minimum ration.<sup>23</sup>

These conditions of constantly greater unemployment and mass pauperization appeared in capitalist Europe before the depression which began in 1929. They have since appeared in the United States, after gathering force during the flourishing prosperity of 1923-29. One of the worst by-products is the growth of an army of homeless children. They are larger in number than in the period after the Civil War, when, according to a conservative estimate of the *New York Times*, there were in New York City alone 10,000 completely homeless children, "exposed to incessant and overwhelming temptation, who suffer severely in winter and stormy weather—a fearful mass of childish misery and crime."<sup>24</sup> In 1932, 200,000, probably 300,000 homeless youngsters, many of them girls, wandered over the highways of the nation, "meagerly fed, scantily clothed, told endlessly to 'move on'. No use to go home—even if they could get there—for home offers even less in sustenance than the open road. No jobs to be had regularly. Few beds to sleep in, except the hard ground in tramp 'jungles' along the railroad tracks." Many are killed "stealing" rides on trains. Others, as "criminal" vagabonds, are sentenced to serve in the horrible chain-gangs of the South. The conversation of three of them is revealing:

TOM [*mournfully*]: If I ever get home I'll just park.

RED [*wistfully*]: Y'oughta be glad you got a home.

MIKE: I've got a home, but the folks don't want me. So I'm on my way. What would you give for a dish of ice cream?

RED: Ice cream! I ain't seen any in months. . . . I used to get a job delivering for a butcher, but after my relations lost their jobs I lost mine too. Guess they got tired of having me around when I didn't make no money, so I thought I'd better leave. . . . Fun? [*ruefully*] I ain't had no fun since I left school.<sup>25</sup>

Now, *when it is too late*, American reformism, and this is characteristic of it, proposes compulsory, self-supporting unemployment insurance. In 1932, the Executive Council of the American Federation of Labor, "with considerable reluctance, abandoned its long opposition to compulsory state insurance," and its action was approved by the convention. But the plan proposed was merely, "after a waiting period of three weeks, to pay benefits for a maximum period of sixteen weeks in a year based upon 50% of the normal weekly wages, but not to exceed \$15 a week."<sup>26</sup> Niggardly as it is, that plan might have been



of value in the epoch of the upswing of capitalism, when unemployment in periods of prosperity was relatively small and temporary; although the plan would have had little value in depression. But now unemployment is increasingly permanent; it is *dis*employment, a complete separation of the worker from the job. This is most apparent in the millions of young workers in Europe and the United States who do not know work and have no chance to work, who merely swell the surplus population. The permanently unemployed workers are not covered by unemployment insurance; they are thrust upon emergency or poor relief.\* This appears clearly in the 1933 report of the Secretary of Labor, Frances Perkins:

"Some form of unemployment reserves should be set up in the different states so that in future it may take the place of the breadlines or other charities. . . . No one has yet found a cure for unemployment. . . . In urging unemployment reserves, I realize that adoption would not mean the throwing up of economic bulwarks for all wage-earners. . . . There should be a definite and fairly long waiting period. The number of weeks of benefit should be limited to bear a definite relationship to the amount of contributions made or the premiums paid." <sup>27</sup>

That is a proposal to force the great majority of unemployed workers to be satisfied with emergency or poor relief or no relief at all. This is emphasized by the fact that in the reports of various state unemployment commissions "there is," according to a member of the research staff of the National Industrial Conference Board (an employers' organization), "a recognition that unemployment is not an insurable risk, and the proposed plans are labeled 'unemployment reserves.' . . . No provision is made for state contributions, no benefits are paid after the reserve fund is exhausted, each employer is responsible only for his own workers, and no attempt is made to 'insure' against unemployment—that is, to give full security to the worker as long as he is unemployed." <sup>28</sup> Thus capitalism offers merely niggardly relief or no relief at all to the surplus population for whom it cannot provide work, and for whom there is small prospect that work will ever be provided.

\* Because of this, the working class must demand and struggle for *real* unemployment insurance covering all forms of unemployment and all workers. The "white collar" workers, whom mechanization and economic decline thrust increasingly into the surplus population, must also demand real unemployment insurance, and become allies of the wage-workers.



## The Economics of Technology

THE absolute displacement of labor by technological progress is not a result of technology itself. "Technological unemployment" is a convenient term with, however, a limited application. In one sense, it describes the unemployment of workers whom new machines have deprived of jobs or skills or both. In another sense, it describes the element in increasing unemployment which is brought about by improved technological efficiency and not by a decrease in production. But technological unemployment becomes permanent only if there is an insufficient rate of expansion in production or if working hours are not reduced in conformity with the higher productivity of labor, both of which factors make it impossible for industry to absorb displaced and newly available workers. Hence permanent unemployment, the surplus population, is essentially a social-economic problem, not a technological one, and is the result of capitalist incapacity to adjust consumption to production.

Yet technology is, within the limits of the social relations of capitalist production, a causal factor of first importance. It conditions the whole process of production, including unemployment. Where the rate of expansion is upward, industry might provide work for all available workers if technological efficiency did not disproportionately raise the productivity of labor. Where the rate of expansion is downward, as in depression and in the epoch of capitalist decline, technological displacement of labor adds to the unemployment already created by the lower level of production. Technology is an accelerating factor in economic development. It has, moreover, an antagonistic and disruptive impact on capitalist production, which has allowed technology to become a demon it cannot control.

But this must be true only because of the black magic of capitalist decline. For technology is a part of the progress of mankind, since man is a tool-making and tool-using animal. When it was crude and empirical, technology was dwarfed by the natural environment. Its development strengthened man's control over natural forces and, consequently, his capacity to produce. When technology, under capitalism, became the purposive application of science to industry, it

resulted in an enormous increase of the productive forces of society and of man's mastery over nature. Now these developments are undermining capitalism. Technology is being limited in its progress and uncontrolled in its results. The great productive forces of society bring permanent unemployment and want in the midst of plenty. And the mastery of natural forces threatens universal ruin because of its use for destructive purposes of war. Thus capitalism reacts against progress. It makes necessary a new social order in which technology, stripped of its capitalist limitations, becomes more fully and creatively the purposive application of science and the means of man's mastery over his environment and himself.\* . . .

As the mechanical equipment of production, materials, and processes, and the accumulation of technical knowledge and skills, technology is the basis of industry. It determines the material relations of production; and it influences, but is itself also influenced by, the prevailing property, class, and social relations. The mode of production as a whole is decisive, and not its technology. Thus technology is not an independent but an historical factor; its forms, development, and uses are interlocked with the social-economic relations of production. It is the mode of production as a whole which is decisive, and not merely its technology. The emphasis on technology as an independent factor distorts both the understanding of history and the understanding of present-day problems.

The technology and economics of production inseparably condition

\* "Technology reveals man's dealings with nature, discloses the direct productive activities of his life, thus throwing light upon social relations and the resultant mental conceptions. . . . Primarily, labor is a process going on between man and nature, a process in which man, through his own activity, initiates, regulates and controls the material reactions between himself and nature. He confronts nature as one of her own forces, setting in motion arms and legs, head and hands, in order to appropriate nature's productions in a form suitable to his own wants. By thus acting on the external world and changing it, he at the same time changes his own nature. He develops the potentialities that slumber within him, and subjects these inner forces to his own control. . . . The labor process ends in the creation of something which, when the process began, already existed in the worker's imagination, already existed in an ideal form. What happens is, not merely that the worker brings about a change of form in natural objects; at the same time, in the nature that exists apart from himself, he realizes his own purpose, the purpose which gives the law to his activities, the purpose to which he has to subordinate his own will. . . . He makes use of the mechanical, physical and chemical properties of things as means of exerting power over other things, and in order to make these other things subservient to his aims. . . . Thus nature becomes an instrument of his activities with which he supplements his own bodily organs, adding a cubit and more to his stature, Scripture notwithstanding." Karl Marx, *Capital*, v. I, pp. 169-71, 393.

one another, but their relative importance varies in time and place. Technology has acquired an *accumulating* influence. It was small in primitive society, where man was dominated by his natural environment; yet even here man could not have become man without the making and using of tools. In ancient civilizations, the slowness of technological change was a primary cause of the slowness of social change, which, with the contempt-for-work spirit of slave cultures, hampered the development of technology. There was no direct technological influence on the great change in the mode of production from slavery to serfdom; it was the result of the economic-political breakdown of the Roman Empire, of slave agriculture having become unprofitable, and of the introduction of new labor relations in agriculture. But technology tremendously influenced the coming of the Renaissance and the commercial revolution. While the early Middle Ages were retrogressive or stagnant in their technology and economy, an increasing number of significant inventions and technical improvements were developed from the tenth to the fourteenth century. There were new forms of harnessing for work animals and an improved plow; wind and water mills, mechanical clocks, a new type of plane, improved bellows, and better construction methods; the compass and the steering rudder for ships; more efficient processes in metal working; many other improvements in tools and many new machines (one, for example, to press the heads of pins and a silk-reeling machine operated by a water wheel); the use of gunpowder and the casting of increasingly larger cannon.<sup>1</sup> Gunpowder and cannon "democratized" war and had an explosive effect on the hierarchical organization of society. The technical-economic changes led to division of labor and specialization of crafts, stimulated the rise of industry, trade, and the commercial bourgeoisie, and influenced social life and mental conceptions by an increasing production and distribution of old and new products. Improvements in tools and the construction of more complex machines stimulated the rise of experimental science, of the practical spirit of *doing* which is a characteristic of both science and the bourgeoisie. Experimental science itself requires a technology. New vistas opened up in all fields of life. All these changes merged into the commercial revolution of the sixteenth and seventeenth centuries, which was, however, essentially a social-economic, not a technological, process. While it was accompanied by many improvements in tools and machines, the distinctive features of the commercial revolution were the growth of the trading class, increasing production for the market, emergence of the class of "free" wage-workers, expropriation of the

peasants from the soil and the creation of a labor reserve,\* development of the world market, breakdown of the system of independent handicrafts and guilds, increasing division and specialization of labor in the early factory system, and the rise of large-scale capitalist enterprise. These changes in the mode of production prepared the conditions for the industrial revolution of the eighteenth century, in which technology was relatively the most important factor. They developed all the essential features of the factory system, whose basis is not machinery but the specialization and division of labor for more economical production. All the fundamental social relations of capitalist production—free wage labor, separation of the worker from the means of production and their conversion into capital, the system of production for profit, price and the market as “regulators” of industry—conquered the older economic relations during the period of the commercial revolution. The technological revolution of the eighteenth century did not create the social relations dominating the development and functioning of modern technology. It is these relations which create the “technological” problems of to-day. Socialism means a change in the social relations of production, not in its technology. . . .

Another aspect of the overemphasis on technology is the overemphasis on energy or power as the decisive factor in both technology and economics. An American “technocrat” and professor of industrial engineering says: “For a period of about 6,000 years, before the beginning of the nineteenth century . . . civilization was dependent on the energy of man power for the goods and services provided. . . . From the technologist’s point of view there was no social change whatever during all this vast period of time. There was no change in the rate of doing work.”<sup>2</sup> But energy can no more be separated from technology in general than technology can be separated from the mode of production as a whole. During that “changeless” period of time, man developed the basic features of technology, in the gradual improvement of his tools, materials, and processes. There were social

\* The expropriation of peasants from the soil, by means of enclosures of the land and with fire and sword, was particularly severe in England; but in other countries also it was a factor in creating a mass of propertiless and helpless workers for the use of capitalist enterprise. Dissolution of the monasteries, innumerable wars, and disruptions of the guilds increased the number of beggars, orphans, and adventurers; many of these were driven into factories or forced to work, unpaid, on the construction of roads by savage decrees of the absolute monarchy. There was no expropriation of peasants from the soil in the North American colonies, where land was abundant and free; indentured labor was secured from helpless colonial orphans and from the mass of unfortunates in England, but its conditions, while bad enough, were better than in Europe.



changes of the utmost importance. Even in the field of energy there was the introduction and increasingly more efficient utilization of wind and water power. Technology moved slowly, but it moved, augmenting man's control over nature and his capacity to produce. Without the constantly greater accumulation of technical equipment and knowledge from the thirteenth to the eighteenth century (including steam engines used for pumping in mines), there could have been no development of a new source of power. And the industrial revolution was ushered in by fundamental changes in machinery, not in power.

The technology of tools and machines already in existence served as the starting point for the development of new machinery which culminated in the industrial revolution. An increasing construction of larger and more complex machines improved mechanical engineering and led to the technological application of scientific discoveries. In the early factory system, where formerly independent craftsmen worked together in one shop under control of a capitalist, tools were improved and simplified, and many new forms of tools were created to meet the requirements of increasing specialization and division of labor. This simplification and multiplication in turn suggested the mechanical combination of tools into machines. The early factory used constantly more machinery, particularly in the making of metal products; in one metal factory there was an imposing array of water-driven slitting, pressing, shearing, and rolling machines.<sup>3</sup>

The machine of the industrial revolution was basically a contrivance which mechanized existing tools and reproduced manual actions.<sup>4</sup> The tool formerly held and operated by the worker was incorporated in the machine, thus combining and mechanically operating a number of identical or similar tools. A machine might incorporate only a single tool, but it increased the power, speed, accuracy, and capacity to produce. The manual actions of crocheting and knitting were mechanically combined in the stocking knitting machine. Prior to the invention of spinning machinery the spinner held a single thread between the thumb and forefinger; this was replaced by the movable carriage in Hargreaves' spinning jenny. Mechanical substitutes for the human fingers appeared again in the rollers of Arkwright's spinning frame, which twisted the yarn as it was wound on the spindles. While the machines of the industrial revolution were essentially mechanized tools reproducing manual actions, this is true only in part and frequently not at all of a whole series of machines created by later technological developments, which also increased enormously the importance of apparatus, a means of production totally dissimilar to



machines and tools. As machines became more complex and heavier, they stimulated the search for a new source of power. Water power was used more and more, but it involved limitations in the location of industry, and the relatively inefficient water wheels were incapable of moving very heavy machinery. Newcomen's steam engine was limited to pumping in mines, until Watt transformed it into a mechanism which from reciprocating motion produced the rotary motion necessary to drive machines. Human and water power were displaced. A single prime mover was now able to supply power to several working machines; and the factory became a weird maze of belts, ropes, and pulleys whirling overhead and alongside the machines. The steam engine and the new and heavier machines it made possible required large amounts of iron; this stimulated the development of new techniques in metallurgy, a combination of mechanical and chemical improvements.

The final phase of the technological revolution was the great change in metal working, in the production of means of production. Existing metal-working machines were neither powerful enough nor accurate enough to produce the precise parts needed for the new machines, especially the steam engine. The creation of an industry manufacturing the mechanical equipment of production, a basic necessity of the new industrial capitalism, required making the construction of machinery itself a function of machinery, increasingly independent of the skill and muscle of the worker. Machine tools, which shape metal into wrought forms by bending, pressing, shearing, paring, and boring, had to become larger, more powerful, and of greater precision. The trend of developments was symbolized in the slide rest, a device replacing the highly skilled operator, who formerly held and guided the cutting tool, with an ordinary worker who simply turned a screw handle; and the worker himself was displaced when the slide rest was made automatic. "This mechanical appliance does not replace another tool but the human hand itself. . . . Thus it became possible to produce the geometrical forms requisite for the individual parts of machinery 'with the degree of ease, accuracy and speed that no accumulated experience in the hand of the most skilled workman could give.'" <sup>5</sup> The liberation of machine tools (and of machinery in general) from the limitations of manual labor resulted in the transformation or disappearance of the tool formerly operated by a skilled worker. But the scope of labor was enlarged, quantitatively in the performance of heavier work and qualitatively in greater accuracy. Machinery did work which manual labor could not do and did better

the work which it could do. The construction of machinery became increasingly dependent upon the "replacement of human force by the forces of nature, and of rule-of-thumb methods by the purposive application of natural science."<sup>6</sup>

By the 1830's all the fundamental aspects, including the central one of labor displacement, of the new technology were clearly evident, particularly in England. All subsequent technological developments have had essentially an accelerating and quantitative influence.

1. The progressive realization of the technical function of machinery revolutionizes the relations between labor and production (and social-economic relations in general), a development which increasingly conditions the nature of machinery. The creation and improvement of tools emphasized the primacy of manual labor in production; technology was essentially an accumulation of manual skills in operating tools. But machinery transfers skill to the machine, and subordinates the worker to the mechanical equipment of production; technology becomes essentially an accumulation of engineering knowledge and skills, and of machines, apparatus, and processes which constantly reduce the relative importance of manual skill and human labor. The early factory, in contrast to the independent handicrafts, needed and used large numbers of unskilled workers; they were greatly augmented by the machinery of the industrial revolution, most evident in the preference given to women and children in the textile mills. New skills arose, especially in the construction of machinery; but they, and unskilled workers in general, were gradually replaced by semi-skilled labor as machines became more efficient and automatic. The automatic principle, although at first imperfectly realized, is inherent in machinery. And the automatic principle means not merely the transfer of skill to the machine but eventually of all work itself. The machine is an arrogant monster. It seeks to be sufficient unto itself, to displace the human worker, and tends to make the worker a technician who repairs, controls, and directs.

2. The new technology, with its constantly greater demands for mechanical equipment and raw materials, profoundly altered the composition of capital. In the early factory system, in spite of the increasing use of machines, the main element in production was still human labor; the composition of capital was low, with a preponderance of variable capital (wages) over constant capital (equipment and materials). Factories were small, moreover, and did not absorb any large amounts of capital. And while the factory was increasing in importance, the "putting out" system existed on a large scale. In this system, the craftsmen pro-

vided their own tools and worked in their own homes; the commercial capitalist, who marketed the product, supplied the raw materials but did not invest capital in equipment and factory buildings. As a whole, consequently, production needed little fixed capital. This was changed by the technological revolution. Machinery and factory buildings made larger investment in fixed capital necessary. The investment became still larger as machines increased in size and number, with a corresponding increase in the size of factories. More raw material was consumed as the efficiency and the scale of production rose. Thus constant capital was continuously augmented. There was an absolute increase in the number of workers; but the rising productivity of labor brought about a relative displacement of workers, and variable capital (wages) fell steadily in relation to fixed capital, raw materials, and output.

3. The higher composition of capital necessarily meant an increasing concentration of industry. This tendency appeared very early in the iron and steel industry, which was transformed by the industrial revolution. As fixed capital requirements grew rapidly, the formerly small and decentralized concerns became larger and more integrated; they mined ore and coal, smelted, refined, rolled, and slit the iron in its finished forms.<sup>7</sup> Profits were high, but competition was savage and failures many; the industry started a series of amalgamations, increasing both the scale of production and the fixed capital requirements. The process of concentration went on inexorably, if unequally, in all branches of industry, urged onward by the constantly greater scale of production, the mounting capital requirements, and the intensification of competition, in which the bigger capitalist usually devoured the smaller. Concentration was encouraged by the increasing technological application of science and its production of machines both more efficient and more expensive. The mechanization and concentration of industry thrust aside both the independent producer and the commercial capitalist. Up to the industrial revolution, the commercial capitalist, who was interested mainly in the marketing of goods, was dominant. He was replaced by the industrial capitalist, who assumed responsibility for the whole process of production. Small producers were either expropriated or permitted to survive only in comparatively unimportant branches of industry. The middle class was transformed; one part rose into the class of large industrial capitalists, who now dominated the bourgeoisie, the other part became increasingly an intermediate, subordinate class of petty traders, managerial (including technical) employees in large-scale corporate enterprise, and professional workers.

4. The new technology raised the productivity of labor tremendously. But it lagged behind the existing possibilities, national and international. For the introduction of new machinery did not depend merely upon its efficiency, but upon whether it saved enough in wages; in other words, upon whether it aided the capitalist in the competitive struggle and in the making of larger profits. England, moreover, tried to monopolize the fruits of technological progress, to prevent other countries sharing in them. The uneven development of capitalism meant that at any particular time or place the utilization of new machinery might not be profitable. "That is why to-day," Marx wrote, "machines are sometimes invented in England which can only be put to use in North America; just as, during the sixteenth and seventeenth centuries, machines were invented in Germany which were only put to use in Holland; and just as many French inventions of the eighteenth century were only utilized in England. In the older countries, machinery, when employed in some branches of industry, creates such a superfluity of labor ('redundancy of labor' is Ricardo's phrase) in other branches, that in these the fall of wages below the value of labor power hinders the use of machinery, and, from the standpoint of capital, whose profit comes, not from a diminution of the labor employed, but from a diminution of the labor paid for, renders that use superfluous and often impossible. . . . Before the labor of women and that of children under ten years of age was prohibited in mines, the capitalists found the employment of naked women and girls, often harnessed side by side with men, perfectly compatible with their moral code, and still more compatible with satisfactory entries in their ledgers, so that it was only after the prohibition had come into force that they had recourse to machinery. The Yankees have invented a stone-breaking machine. The English do not make use of it, because the 'wretch' [a recognized term for the agricultural worker] who breaks stone by hand is paid for so small a proportion of his labor that machinery would increase the cost of production for the capitalist."<sup>8</sup> Nevertheless there was a constant increase in the productivity of labor because of the introduction of new machinery. And out of this arose the problems which now, in more acute form, torment capitalist industry. The development of the productive forces outstripped consumption. Classes other than the workers (including the old feudal aristocracy) gained most from the higher output of industry. Cyclical crises and depressions made their appearance, arising out of the dynamics of capitalist production itself. England tried to overcome the contradictions by cultivating the export markets, which did not abolish cyclical breakdowns but did accelerate



capitalist development. One result, however, was mass starvation (particularly in the Hungry Forties) in the midst of relative plenty. Another result was the overdevelopment of industrialism (and consequent ruin of agriculture), which, "balanced" and profitable while England was the world's workshop, was increasingly undermined by the progress of international industrialization.

5. Agriculture was the stepchild of the new technical-economic developments. The expropriation of peasants from the soil had already shown what capitalism had in store for workers on the land. The new technology was used in a very niggardly fashion in European agriculture, yet there was a great increase in productivity. Millions of farm workers were displaced, a new expropriation of peasants from the soil. They became the human raw material of the factory system or servants of the well-to-do. And as immigrants they became manual workers and servants in the United States. In spite of the limited use of the new technology in agriculture, even among American farmers, there was an increasing adoption of capitalist methods and concentration of production. But agriculture lagged behind the general economic progress. It lagged because the older social-economic relations lingered on, and because agriculture was exploited by capitalism. In the industrial countries of Europe, especially England, agriculture was discouraged in favor of intensive industrialization, which based the national economy on the export of manufactures and the import of agricultural products. In the United States it took the form of forcing agricultural expansion beyond the point where it was profitable, and using the farmers' surplus to pay for the imports of capital necessary for rapid industrialization. And the exploitation of agriculture forced colonial and other economically backward countries to concentrate on the production of one or two crops, in the interest of foreign capitalism, with eventually disastrous results to the local economy. Technology, in the form of improved agricultural implements and means of transportation, facilitated the exploitation of agriculture. The plight of world agriculture to-day is the cumulative result of the whole development of capitalist production.

6. All the developments of the industrial revolution, its transformation of the technological basis of production, contributed in one way or another to the creation of a surplus population. The beggars, vagabonds, and adventurers, the outcasts of a feudal order which was breaking down from the fifteenth to the eighteenth centuries, were not a true surplus population; this is shown by the measures adopted by the absolute monarchy to force them to work, to develop a labor reserve



for capitalist enterprise. Changes in the composition of capital and the resulting rise in the productivity of labor moved slowly, although some workers were displaced. The demand for labor usually exceeded the supply. Where workers were unemployed it was mainly because of the bad organization of the labor market. But the surplus population arising after the industrial revolution was the direct result of the workings of capitalist production itself. For industrial growth, the expansion of old and creation of new industries, required a large and growing labor reserve. Labor was displaced by the higher composition of capital. Productivity of labor, in general, rose faster than production. The rise, moreover, was uneven, haphazard; workers displaced in one industry were not absorbed by expansion in another. And, as yet, the production of capital goods was not sufficiently developed to provide employment for many workers. In addition to the displacement of workers by more efficient mechanical equipment, there was more displacement because of the barbarous exploitation of labor. Women and children were increasingly employed in preference to men. The working time, which was predominantly ten hours daily in the England of the seventeenth century, rose steadily as a result of the industrial revolution; by 1800 the 14-hour day was customary and the 18-hour day not unusual.<sup>9</sup> The surplus population was augmented by peasants who flocked to the towns looking for work. Wages fell under pressure of unemployed men and working women and children. It was an epoch of increasing misery for the working class.\*

The earlier industrialism was marked by an absolute displacement of labor and increasing misery among the workers. This was checked in the epoch of the upswing of capitalism, from the 1850's to the 1890's. In the more highly industrial countries working hours fell and wages rose. Much of the newer and more complex technology, in contrast to the crude machines of the industrial revolution, was incom-

\* For some years, research students have been trying to disprove that the industrial revolution produced a surplus population and increasing misery from, say, 1750 on. But this represents the necessity for being "original," where it is not sheer apologetics. Conditions were, of course, not so bad in the United States prior to the Civil War, a most important peculiarity in shaping American social development in general and the labor movement in particular. The factory system expropriated the crafts of the artisans and preferred to employ women, children, and orphans. But this development proceeded on a small scale, because industrialization was slow; and wages were relatively high, a colonial heritage which persisted because, owing to continued existence of the free lands of the frontier, wages tended to approximate the level of the farmers' income. Under frontier conditions a surplus population, except in depressions, could not arise; any surplus was absorbed in the westward migrations.

patible with excessive fatigue. The military and political interests of the state, moreover, required an improvement in the living conditions of the workers. And the workers, organized by the mechanism of capitalist production itself, forced other improvements through their accumulation of economic and political power.

Lower working hours, more employment, and higher wages were made possible by greater production, the rising productivity of labor, and higher profits; in turn, these developments depended upon and constantly augmented the output and absorption of capital goods. The most important single factor in the increasing production of capital goods, the basis of the capitalist upswing, was the technological revolution in transportation. It flung, in addition to internal railroad construction, a net of iron rails and iron ships around the world, and absorbed more new capital and equipment than manufactures. (By 1890, American manufactures had \$6,525 million of invested capital, the railroads \$7,577 million.)<sup>10</sup> The construction of railroads in economically backward countries, including Europe, was the most important aspect of the British export of capital in the 1840's and after. But the revolution in transportation was even more significant than the direct absorption of capital goods, for it broadened the world market and the international basis of capitalism.\* This enlarged the scale of production, and the amount and efficiency of machinery, by permitting the sale in foreign markets of surplus products which otherwise would have saturated the home market and held back economic and technical advance. In addition, recovery and prosperity after depression were frequently stimulated by new foreign markets and industrialization overseas (or, in the case of the United States, in its own continental areas), with its construction of railroads, urban transit, public works, and factories, requiring heavy imports of building materials and productive equipment from the more industrial nations. Technology combined with other factors to initiate and sustain the upswing of capitalism; for, unlike the tendency of to-day, new

\* The downward curve of demand for new transportation equipment is one of the elements of the decline of capitalism. Shipbuilding has been one of the most depressed industries since the World War. The motor truck and airplane, among the most important of recent technological creations, have been economically insufficient to offset the decrease in railroad construction. Yet the world's transportation net is incomplete, and there is abundant need for railroads, motor trucks, and airplanes in economically backward countries. But these countries, under imperialist exploitation and caught in the whirlpool of capitalist decline, are unable to develop their economic possibilities. Their expansion or retrogression is interlocked with that of world capitalism.

inventions did not merely improve the efficiency of existing equipment, but revolutionized the technological basis of a whole series of old industries (ships, boots and shoes, glass, iron and steel, printing, food, the use of metal in building construction), or created entirely new industries (railroads, electric power, telephones, pulp paper, urban electric transit). Underlying all these developments, in their influence on employment and the surplus population, were two fundamental factors:

1. *The rate of increase in production was greater than in the productivity of labor.* While in some cases productivity rose more than production, this was offset by the general development, and particularly the technical-economic creation of new industries.

2. *The rate of growth in industries producing capital goods was greater than in the industries producing consumption goods.* The efforts to raise the productivity of labor, the increasingly higher composition of capital, the enlargement of the scale of production, the revolution in transportation, and the construction needs in new, undeveloped areas—all these factors augmented the output and absorption of capital goods, whose production required a constantly larger proportion of the workers.

Because of these two factors, the displacement of labor was relative, not absolute. The expansion of production in general, and of the industries producing capital goods in particular, absorbed the majority of displaced and newly available workers. (Another, and increasingly important, factor was the growth of clerical, technical, and managerial employees in corporate industry, and of professional and service occupations.) The tendency toward the creation of a surplus population was checked.

But it was checked only partly and temporarily. Workers displaced by technological changes and the rising productivity of labor were not absorbed until after an intervening period of unemployment; and many of them, the highly skilled and the older workers, were either forced to accept lower-paid jobs or thrown into the ranks of the unemployables. Normal unemployment, the reserve army of labor, tended to rise, even if not as rapidly as in the earlier industrialism. And in periods of depression the tendency of capitalism to augment the surplus population appeared in all its unanswerable and terrible reality: *for there was both an absolute and a relative increase in cyclical unemployment.* The surplus population expanded much more in depression than it contracted in prosperity.

The partial and temporary check on the increase of the surplus population was, moreover, limited to the highly industrial countries. It

was, in large measure, the result of the exploitation of economically backward peoples. The industrialization, after the 1850's, of agricultural countries in Europe was distorted, made lopsided and incomplete, by the pressure of the more highly capitalist countries, from whom they imported goods and capital. Workers were displaced by the higher productivity of labor, which rose more than production. Increasing efficiency in agriculture displaced more workers than industry could absorb.\* Economic progress was sufficient to increase the population, but not to provide all with work. Only the great migrations overseas held the surplus population in check. Conditions were much worse in such colonial and semi-colonial countries as India, China, and Mexico. The import of foreign manufactures disrupted the native handicraft economy, aggravated by the growth of local industrialism. Disruption appeared also in agriculture, because of the increase in efficiency and the demand of the industrial nations for the production and export of one or two particular crops. Workers were displaced on a large scale; but industry could not absorb them, because its development was even more incomplete than in the newer industrial nations of Europe. Nor could emigration much reduce the surplus population, for most doors were slammed in the faces of colored peoples. Worst of all, however, were conditions in the tropical countries, in Africa and most of Latin-America, in Malaysia and the Philippines. Natives were deprived of land upon which their livelihood depended, an expropriation from the

\* Intensive industrialization<sup>1</sup> in the Soviet Union is *not* accompanied by unemployment. Henry Hazlitt, "These Economic Experiments," *American Mercury*, February, 1934, pp. 141-42, says: "There is nothing particularly remarkable about an absence of unemployment under any social system when an agricultural country is being rapidly industrialized." Isn't there? All through the nineteenth century, unemployment was widespread in agricultural countries being industrialized. But perhaps Hazlitt stresses the "rapidly." Nowhere was industrialization more rapid than in the United States from 1860 to 1900. Yet cyclical unemployment was greater than in earlier depressions. Technological and normal unemployment both increased, and was higher than in other countries. According to the Douglas estimates, unemployment in manufactures, building trades, and transportation rose from 5.6% in 1889 to 7% in 1899. In countries being industrialized to-day, unemployment moves in about the same manner as in the more highly industrial countries. Trade union unemployment in Australia was 7% in 1927, 11.1% in 1929, and 29.4% in 1932; in Canada, for the same years, it was 4.9%, 5.7%, and 22%. (*International Labour Review*, June, 1933, p. 809.) The implication of Hazlitt's statement, moreover, is that unemployment must exist where industrialization is not "rapid" or is measurably complete. But why, if not for the social relations of capitalist production? Industrialization in the Soviet Union, in comparison with capitalist countries, is marked by a *qualitative* difference: a socialist planned economy, where production for use and not for profit is the motive.



soil much more brutal than in the Europe of the commercial revolution, with the deliberate purpose of creating a labor reserve of "free" workers. There was forced labor to build highways and railroads; forced labor in the mines and on plantations. In spite of all the forced labor, the surplus population grew. A handful of European nations (Britain, France, Germany, Holland, Belgium) secured cheap foods and raw materials, new markets for surplus goods and capital. But the economically backward peoples paid in sweat and blood, although the upper ruling layers shared in the spoils. All these developments, including Congo atrocities, colonial revolts and wars, were a part of imperialism, an essential element in the upswing of capitalism. But the upswing was, for the world as a whole, marked by growth of the surplus population and increasing misery among the masses.

The technology of the upswing of capitalism, in addition to the revolution in transportation, built upon and developed more fully the technology of the earlier industrialism. There was an increasing transfer of skill, machines became more precise and automatic, and they made larger capital investment necessary. These were universal trends, but they were particularly marked in the United States. "The keynote of the American development was mass production of standardized articles, each part of which was made by machinery designed for one task. Skilled labor was scarce; the frontier consumer wanted goods which were cheap, serviceable, or labor saving rather than polished, well finished and long of life. . . . The designing of special machines which could be attended and fed by unskilled workers therefore became the first manifestation of 'Yankee ingenuity.'" <sup>11</sup>

New and improved working machines were adopted in one branch of manufactures after another. Not only were the earlier textile machines improved, but new machines were created for other phases of the work, for mechanization of one process makes necessary the mechanization of other processes. The characteristic of the Jacquard loom, whose system of cords simultaneously and *automatically* selected and moved the needed warp threads, was incorporated in a large variety of machines which performed mechanically all operations involved in the production of textiles. A collateral development was the application of machinery to the production of garments, initiated by the sewing machine. Starting with the invention of the skiving machine in 1845, a mechanization of the skiving knife, the making of boots and shoes was completely transformed by an intensive division of labor and specialization of machinery, based on one hundred operations and scores of machines. The manufacture of pulp paper, while essentially a prod-



uct of chemical research and its industrial application, required also many new machines. By the 1870's, paper making was almost entirely automatic. In a modern paper plant, the fluid pulp is fed in at one end and emerges as rolled paper at the other—all operations are automatic within the limits of the machine and apparatus. The making of steel was rapidly mechanized by means of machines and apparatus of immense size, complexity and capacity, forcing labor requirements down to a minimum. Use of the regenerative furnace with the continuous melting tank was followed by the mechanization of glassmaking and the perfection of the astonishingly complex Owens automatic bottle machine, which wiped out one of the most highly skilled groups of craftsmen.\* While the linotype machine replaced one skill with another, the printing press developed to the point where all operations are performed automatically by one giant machine. The canning of foods involved the use of almost completely automatic cooking and cooling apparatus, measuring devices, and can-packing machines. The milling, measuring, and packing of flour was mechanized until only a relatively trifling labor force was necessary. Workers were inexorably displaced, not only by the transfer of skill but of labor itself to the mechanical equipment of production, because of increasing realization of the automatic principle. In addition, scores of devices for homes and offices mechanized not merely manual skills but human intelligence, as in the case of calculating machines. Scientific research became constantly more technological, more and more organized on an industrial basis in great laboratories with intricate mechanical equipment and the division and specialization of labor. And the technological basis of agriculture was revolutionized by machinery, which, starting with improvements in the older implements and tools and the invention of a mechanical reaper, was augmented by an increasing variety of machines and implements. (In addition, there were advances in soil fertilization and in plant breeding.)

The construction of more and more diversified machinery could not have been accomplished without the greater automatization of machine tools and advances in the manufacture of interchangeable parts, the

\* The organized glass manufacturers of Europe prevented, for many years, the introduction of the Owens machine because it was unprofitable. This is another illustration of how social-economic relations condition technology, as the machine was profitable in the United States because of the high wages of glassmaking craftsmen and the existence of large markets which made economical large-scale production possible. It also illustrates how capitalist interests retard technological progress. In the United States as well many machines were not used because they were unprofitable, although socially useful and desirable.

basis of mass production. Profound changes took place in the machinery industries from the 1850's to the 1890's, particularly in the United States, whose machine tools began to invade the European markets. While the parts of machines became more complex and varied, they also acquired more regularity, and this created new standards of precision for machine tools, indispensable in the production of interchangeable parts. These standards were made possible by innumerable improvements in machine tools and particularly by the development of the turret lathe, the universal milling machine, and the automatic screw machine. The turret lathe enhanced precision and control. Constructed in a variety of types, the universal milling machine displaced considerable manual labor, performed high quality work, and was peculiarly adapted to mass production, since the rigidity of the cutting tool and its multiple edges permitted accurate and cheap reproduction of shapes and forms. The automatic screw machine, several of which could be attended by one worker, meant production of cheaper and better screws. Hand filing had been formerly necessary, but it was now done more accurately and with less labor by improved machine tools. There were many other great advances. New tools developed, among them the pneumatic drill operated by compressed air and working at tremendous speeds. Higher speeds and deeper cuts, more than doubling the output of a machine, were made possible by the introduction of high-speed steel after the 1880's; twenty years later machine-shop practice was revolutionized by the growing use of alloy steel for cutting tools. The greater the rigidity of the tool, the greater the precision and automatic character of operation; hence the development of jigs, fixtures, and other appliances to guide the tool or hold the work in place. Not only was machinery construction more purposively the technological application of science, it was increasingly liberated from the limitations of manual labor.

The transfer of both skill and labor appeared most clearly in apparatus, a means of production whose importance grew as the technological application of chemistry created new and modified old industries. Apparatus is most highly developed in the chemical industry with its vats, pipes, and similar contrivances, but it is also of great importance in other industries which require one or more chemical processes. It was first used on a large scale in the production and distribution of gas, in the chemical industry itself, in metallurgy, the manufacture of rubber, glass, and soap, the production of alloys, the refining of petroleum, and in electrolysis. With the development of synthetic products (dyestuffs, pulp paper, cement, celluloid, nitrates, rayon, regenerated

and artificial leather and rubber, distillates of coal), whose technology involves complex chemical action and precise control, apparatus attained still greater significance. It makes usable formerly unused raw materials and makes possible new uses for many others; reproduces rare materials or creates new ones by synthetic transformation of common and widespread raw materials. Apparatus, whose output may be solid, liquid, or gaseous, produces a series of products, raw and finished, beyond the capacity of machines, and takes on constantly greater importance as production increasingly turns toward the synthetic.<sup>12</sup> (There are political aspects to this, in the efforts of nations to become independent of foreign raw materials.) Very little labor is needed in production by means of apparatus; it is highly automatic, the workers are either unskilled or semi-skilled, and act under orders of a handful of engineers whose work is also highly mechanized. More and more the mechanical equipment of production assumes the form of apparatus. This means a still higher composition of capital, driving toward the absolute displacement of labor and aggravating all the contradictions and antagonisms of capitalist production. Yet the promise of apparatus is great. For it makes possible more abundance—utilizing hitherto unusable and common raw materials, creating cheaply many new products. And it liberates mankind from the drudgery of production, lowering the amount of necessary labor and transforming it into higher forms. . . .

More automatic machinery emphasized the transfer of skill and labor and the specialization of machines. No more than average manual dexterity, intelligence, and attention are necessary to “operate” automatic machines. Although machines were built which performed all operations needed to turn out one product, the tendency was toward the specialization and serialization of machines. The work to be done was considered as a mechanical problem, split up into its separate and constituent elements, with a series of machines for the different processes. The work “flowed” from operation to operation and from machine to machine; neither the worker nor the machine was the decisive consideration but the work itself and its increasingly mechanical and automatic performance. These technical developments were accompanied by the steady growth of mass production, with intensive specialization and serialization involving the use of considerable auxiliary appliances, particularly the automatic conveyor.

Technical-economic progress after the 1850's resulted in a constantly greater investment of capital; in American manufactures it amounted to \$533 million in 1849 and \$9,813 million in 1899. Capital investment

per worker rose from \$557 to \$1,840 and output per worker from \$1,065 to \$2,450. The number of workers rose from 957,000 to 5,306,000, an increase of 454%, compared with 1,741% in capital and 1,043% in output.<sup>13</sup> Hence, although labor was relatively displaced on a large scale by the higher composition of capital, there was no absolute displacement because production tended to rise more than the productivity of labor. In addition, millions of workers were absorbed by the tremendous growth of transportation, construction, and agriculture, a direct result of the inner continental areas (the American equivalent of Europe's overseas markets),\* whose development, moreover, provided a vast internal market for consumption goods. Accumulation of capital, the making of profits and their conversion into capital, was extremely active. Not only did production rise more than productivity, but the output of capital goods was constantly and greatly augmented, absorbing relatively more workers than the industries producing consumption goods.

All these conditions checked the tendency toward the creation of an overlarge and threatening surplus population, in spite of the increase in normal and cyclical unemployment. But the significant thing is that a surplus population *did* appear: for it was practically non-existent before the Civil War (except in its cyclical aspects), when technical-economic changes were slow, industrialism was only acquiring momentum, and the new lands of the frontier offered more possibilities of escape than after the 1870's. Unlike England, moreover, the American industrial revolution and the upswing of capitalism measurably coincided in time, the conditions of one modifying those of the other. Not only did a surplus population arise, *it was greater than in the industrial nations of Europe*. Cyclical and normal, including technological, unemployment was an increasing torment to the workers, an important cause of the labor discontent and struggles of the 1870's-90's. The large surplus population did not create more unrest and militant action because its composition was repeatedly changed by immigration; only in depression was there prolonged unemployment among the same groups of workers.

\* It must not be assumed that foreign trade was not an important factor in American economic development. It was. The United States, in spite of its peculiarities, was inseparably bound up with the world market. Agriculture exported its surplus to Europe, without which its expansion would have been limited. Capital, raw materials, and manufactures were imported, accelerating industrial development. After the 1870's, the American scale of production was enlarged by an increasing cultivation of export markets, particularly for textiles, meats, boots and shoes, petroleum, and metal products, including agricultural and other machinery.



American technological progress was unparalleled in both its inventive and practical aspects. Where an invention or discovery was European in origin (railroads, the dynamo), it was developed most highly and applied most generally in the United States. Almost everywhere the urge was to let mechanical equipment do the work, to scrap the old and accept the new. Not only that: as industry tended to adopt the most efficient equipment, so machinery tended to conform strictly to mechanical requirements, to become completely functional. The engineering approach was interlocked with an important element of American life, the spirit of being practical, experimental, even revolutionary in a limited empirical sense. Technological progress was hampered by the profit motive, it had a crude, devastating effect on culture; but that was the result of capitalist relations, for technology is the liberator of man and the basis of a new, *human* culture. The urge for increasing technological efficiency marked the upswing of capitalism; its decline is marked by a revolt against technology, by proposals for a "moratorium" on invention.

The unparalleled progress of American technology was conditioned by three basic social-economic factors:

1. The relative insignificance of tradition, resulting in a "pure" capitalist ideology (except in the slave-owning South). There were few vested interests, especially of a feudal character, to hamper technology and industrialization. The European farmer was conservative, still partly in the clutch of an older ideology and mode of living; the American farmer was as practical as the capitalist, unusually eager for technological change. In Europe the industrial revolution had to struggle and move slowly against traditional, class, and political opposition; in the United States it swept onward practically unopposed, building, in addition, upon the pioneer work of other nations. The social atmosphere favored the engineering approach of the new technology.

2. Under capitalism, technological progress depends upon the making of profits and their conversion into capital. This, in turn, depends upon the scale of production and the output of capital goods. Both were tremendously augmented by development of the great mass markets of the inner continental areas, much more than in the case of Europe, with its dependence upon foreign markets. The use of many machines, unprofitable in other countries, was made possible by the greater American scale of production and the more active accumulation of capital. (Yet there was excess capacity and capital investment rose more than output, making necessary an increasing capital invest-



ment to produce a unit of product.) American capitalism imposed the fewest economic limitations upon the development of technology.

3. The comparatively high level of American wages encouraged the introduction of *wage-saving* machinery. (This, and not labor-saving, is the real objective of machinery under capitalism; for while it saves labor, this becomes a saving on wages accompanied by intensification of labor. Only socialism can realize fully the inherent labor-saving function of machinery.) The high level of wages was not a result of capitalist development but a colonial heritage, which capitalist production tried to break down; the differences between American and European wages were relatively about the same in the nineteenth century as in earlier periods. Colonial governors denounced the "intolerable" wages and the "exorbitant" demands of the workers. Governor Winthrop, of the Massachusetts Bay Colony, observed in 1633 that the "excessive" rates asked by workers had given rise to "general complaint" and urged legislative action.<sup>14</sup> The policy was to beat down wages. Maximum-wage laws were passed, to force workers to work for lower pay. Indentured labor and Negro slaves were imported. But only slavery was partly successful; the other measures failed. There was a scarcity of labor in general and of craftsmen in particular; land being abundant, cultivation paid better than work at low wages. The factory system, early in the nineteenth century, again tried to lower the level of wages. Women and children, often mere babes from the almshouses, were employed in preference to men. One textile manufacturer, commenting on the economy of the new machinery and water power, wrote: "We got rid of 60 weavers, and substituted for them 30 girls, who were easily managed and did more and better work."<sup>15</sup> But the opportunity of becoming an independent farmer on the new lands of the frontier created an income norm around which wages tended to fluctuate, and much below which they could not permanently fall. Thus historical elements (and they are important in wage determination) maintained American wages, low as they were, at levels generally higher than the European. The necessity of wage-saving stimulated technological progress.

The onward sweep of technical-economic change destroyed the rule of the old middle class, dominated by the commercial and agrarian bourgeoisie, the merchants and large landowners. Economic and political power was usurped by the industrial capitalist. But the development of large-scale industry, with its increasing capital needs and constantly higher composition of capital, meant the decay of the class of small industrial producers, who were either wiped out or subordi-

nated by the concentration and trustification of industry. This in turn produced another change within the ruling class. As industry, with its growing capital needs, raked in the savings of smaller investors, and was more and more trustified, the multiplication of stockholders separated ownership, management, and control. Management was vested in managerial employees; control was usurped by financial capitalists, the masters of monopoly capitalism, an oligarchy operating through the institutional mechanism of the great banks. This development, which appeared in the 1870's, was ascendant by 1900 and completely triumphant twenty years later. Its basis was the technological transformation of industry, out of which arose industrial concentration and monopoly and the centralization of financial control.

There were important changes also in the other classes. All persons engaged in agriculture, although scoring an absolute increase, fell from 52.8% of the gainfully occupied in 1870 to 35.9% in 1900. The wage-workers, more and more a class of unskilled or semi-skilled workers, became an increasingly larger proportion of the gainfully occupied. "White collar" occupations made the largest relative gains. Technicians increased from 8,000 in 1870 to 102,000 in 1900, clerks and stenographers from 148,000 to 499,000, salespeople and clerks in stores from 105,000 to 811,000, with an increase of 60% in the number of persons in professional occupations.<sup>16</sup> There was a similar growth in the managerial and merchandising employees of corporate industry. This is a general tendency of capitalist production; in England, from 1861 to 1891, the number of the gainfully occupied rose 100%, with a rise of nearly 200%, however, in clerks, brokers, agents, and salesmen.<sup>17</sup> Although the small producer was becoming relatively unimportant in the shadow of trustified industry, a "new" middle class was shaping itself. It was new, however, only in the sense of inner proportional changes; for its elements were old—professionals, technicians, brokers, merchandising employees, storekeepers, salesmen, and agents. The newest and most important element were the managerial employees in corporate industry, made necessary by trustification and the separation of ownership and management, once the combined function of the industrial capitalist.

The later stages of the upswing of capitalism, from the 1890's on, were marked by the increasing use of electric and oil power in industry, especially the former. This coincided, in Europe, with the pre-war beginnings of decline, which would have been much more severe if not for the stimulus of electric power to the output of capital goods. In the post-war period the decline of capitalism in Europe was acceler-

ated in spite of the expansion in electric power; only in the United States, in 1923-29, was it a factor in a new upsurge of prosperity. Now electrical expansion, comparable only to the railroads in the demand it created for capital goods, is practically at an end.\*

As in the case of the steam engine, the development of new sources of power profoundly influenced the structure and operation of machines and the character of the labor force. The limitations of steam power were broken by the electric motor and the internal combustion engine.

Agricultural machinery was especially influenced by the oil engine. Steam power had been used to pull plows on large farms, but the results were unsatisfactory. The new oil engine was early adapted to the use of agricultural machinery; with its improvement and the construction of light, general-purpose tractors, the way was opened for the growing use of motor power on farms and their intensive mechanization. The tractor forced modifications of the older agricultural machinery and the development of many new implements; the tendency is toward the universal machine with interchangeable implements. The tractor is adapted to the performance of all sorts of farm work; it can now be used both for small farms and for hilly, stony, and boggy soils. Efficiency was increased, particularly during and after the World War, but this tended to multiply the farmers' burdens. Larger capital needs meant more mortgages and interest payments. Larger output saturated markets and lowered prices, aggravating the permanent agricultural crisis. As productive efficiency (stimulated also by more progress in soil fertilization and plant breeding) increased more than output, labor was displaced and a surplus farm population created.

In industry, electric power not only accelerated mechanization but greatly augmented the automatic character of machinery and its dis-

\* The period after the 1890's was marked, because of the increasingly higher composition of capital and keener competition, by more downward pressure on the rate of profit. Capitalists sought eagerly for methods to raise the productivity of labor and the rate of surplus value without the costs of investment in more efficient equipment. The answer was Taylorism, or scientific management, whose basic element is improving the efficiency of labor in terms of labor itself. This still means a higher composition of capital, for fewer but more efficient workers set in motion the same quantity of fixed capital and a larger quantity of raw materials. But the higher productivity of labor is not compensated by an increase in the output of capital goods. Scientific management made enormous strides in 1922-29. It makes still greater strides under the conditions of capitalist decline. But scientific management means an absolute displacement of labor and lower total wages.

placement of labor, emphasized by the increasing use of chemistry and apparatus as means of production. Electric drive changed the early transmitting mechanism of belts, shafts, and pulleys. Individual drive with a motor for each machine made possible the most logical arrangement of machinery, of prime importance in serialization and mass production. The conveyor system depends upon the electric motor. Motors were designed and constructed for the needs of particular machines; finally the motor itself was made an integral part of the machine, which increasingly became an electrical mechanism. In rayon plants there are spinning frames on which every spindle is driven by its own motor, far outstripping the older mechanical spindles; electrification has made rayon production practically automatic in all its varied stages. All machines are virtually automatic in the silk industry, with the exception of reeling, in which the operator still performs a large part of the work. In rolling mills, the electrification of main-roll drive and controls has resulted in automatic continuous operation. In blast furnaces and power plants coal is automatically stoked; the stokers are replaced by "combustion engineers" who supervise control dials. The electric teletypesetter, using a worker no more skilled than an ordinary typist, displaces compositors with perforated cards which are attached to the linotypes and operated automatically; and the rolls may, by radio, be sent from a central point to any number of plants. A photoelectric device sets type automatically direct from typewritten copy. Non-factory work is marked by similar developments; in open pit mining an electric shovel digs enough dirt in twenty-four hours to fill 7,500 motor trucks.<sup>18</sup> While in some cases the tendency is toward the one-job machine, in others it is toward the multiple automatic combining operations formerly performed by separate machines. A modern drilling machine performs 132 operations. An automatic monster makes complete automobile frames in one plant. In a paint factory the raw materials are fed into the machine and move mechanically from one process to another until the filled and sealed cans arrive at the shipping floor.<sup>19</sup> Auxiliary appliances also become constantly more automatic, operated with electric, pneumatic, or hydraulic power. There are machines which count 25,000 pieces to the ounce and others which count tons of heavier pieces. Electric devices, often within the machine itself, increasingly control precision and quality. Industry is multiplying its automatic thermostats, automatic mixing devices, and more highly accurate gauges. In steel, aluminum, and pulp-paper mills, temperatures and pressures are under electric control; in an electric heater for forgings a photoelectric cell passes the heated billet



on when it reaches the right temperature, eliminating overheating, which weakens the metal, and underheating, which breaks the die; an electric machine inspects the surface of quality products and discards those with defects.<sup>20</sup> The levers and push-buttons, which control the operation of automatic machines and apparatus, find their highest expression in remote control and the automatic plant. Control appliances are concentrated on switchboards in a "cabin" at some central point; a few workers, each attending one or more switchboards and dials, control the plant's automatic operation. The plant becomes almost manless. In some hydroelectric plants there is not a single worker; reports are made and control is exercised through automatic electric devices.

The photoelectric cell, or "electric eye," has become a most powerful factor in the fuller realization of the automatic principle. "An unusual variety of uses has been found for this mechanical eye, which never knows fatigue, is marvellously swift and accurate, can see with invisible light, and coordinates with all the resources of electricity. It sorts beans, fruit, and eggs, measures illumination in studios and theatres, appraises color better than the human eye, classifies minerals, counts bills and throws out counterfeits, counts people and vehicles, determines thickness and transparency of cloth, detects and measures strains in glass, sees through fog, is indispensable in facsimile telegraphy, television, and sound-on-film pictures, directs traffic automatically, and serves as an automatic train control."<sup>21</sup> Electricity functions as power, regulates precision and quality, and makes possible the remote control of automatic machinery, apparatus, and plants. It is also used more constantly in chemical processes, in the creation of alloys and of synthetic materials and products, which has, moreover, only begun. Modern industry depends upon electricity and chemistry; and both make for an increasingly automatic performance of work by the more purposive application of science.

Automatic machines and apparatus and the automatic plant, fully realizing the principle inherent in mechanical work, are completing the revolution in the relations between labor and production. *The mechanical equipment not only absorbs skill but labor itself; it no longer merely displaces workers by performing their function more efficiently but absorbs the function itself.* There is a change both in the relations of labor and in the character of labor.

In the handicraft system, all labor was skilled, whether it was the artisan working on machines and appliances or the craftsman working



directly on raw material, or a combination of both types of labor. *All-around skilled labor was the basis of production.*

In the early factory and in the earlier stages of the industrial revolution, unskilled workers appeared and became increasingly numerous. It was the dominant type of labor, although more and more machinists or mechanics were necessary to superintend the machinery. *The division and specialization of labor was the basis of production.*

In the later stages of industrialism, with its large-scale industry and more efficient and skill-absorbing equipment, the tendency was to make the mass of workers semi-skilled. The need was neither for highly skilled nor wholly unskilled labor, but for workers whose partial skills were easily acquired. Relatively fewer mechanics were needed to superintend the more efficient machines and apparatus. (At the same time a new class of mechanics arose, such as locomotive engineers, linotype operators, and electricians.) *The division and specialization of both labor and increasingly automatic mechanical equipment are the basis of production.\**

This third stage is still the predominant one. But a fourth stage has already definitely appeared, although limited to the more highly developed industries and plants. Complete automatic production transforms the labor force into a small group of skilled supervisors and repairmen. "The development of more automatic machinery requires the 'key' man, a new and higher type of mechanic, the junior technician. Labor formerly unskilled becomes highly technical; thus the occupation of stoker—traditionally the lowest—gave way to that of the junior technician who operates the boilers by tending a gauge. . . . All types of automatic machinery demand the services either of the mechanic or of the junior technician."<sup>22</sup> The modern mechanic and the junior technician need almost as much technical knowledge as engineers; they can, at a pinch and temporarily, replace the engineers. *The division and specialization of automatic mechanical equipment becomes the basis of production.*

Not only labor but management also is profoundly affected by mechanization and automatic production. One-man management is in the discard. Managerial functions are simplified, specialized, and mechanized, and need increasingly smaller skill to perform. Managerial skill and labor are transferred to mechanical devices. In automatic

\* All these developments involve a tremendous *socialization* of production, in the form of large-scale industry. It also involves a socialization of invention, for all large industrial corporations have highly organized and efficient laboratories employing hired "inventors" who systematically develop new technological applications of science.

plants only a thin line divides managerial and ordinary work: management itself tends to become an automatic mechanical function.

Of the utmost cultural importance is the tendency of highly developed technology to *break down the division of labor between worker and worker and management and the workers*. The worker's new requirements of "mental alertness, general intelligence, 'polytechnic literacy' and loyal dependability" make him, according to one observant management engineer, "more and more an intelligent human being, an all-around educated man, defining 'educated men' as 'those who can do everything that others do.' This transition in the functional characteristics of workers is slowly but surely obliterating not only the 'division of labor' . . . but it is also steadily abolishing the distinction between the 'man in overalls' and the 'white collar man.'" <sup>23</sup> Thus technology itself confirms one of the most derided "utopian" ideas of Marx, who, fifty years ago, wrote of the "higher phase of communist society, after the enslaving subordination of individuals to the division of labor and with it also the antagonism between manual and intellectual labor have disappeared, after labor has become not merely a means to live but is itself the first necessity of living." <sup>24</sup> Obliteration of the division of labor, which means that division and specialization of "labor" increasingly becomes a function of the mechanical equipment, is now merely a *tendency*. Its fulfillment presupposes a constantly greater development of the forces of technology; but this multiplies the contradictions and antagonisms of capitalist production, and there is, consequently, a growing revolt against and limitation of technological progress. It presupposes, moreover, definite social-economic conditions. The cleavage between town and country must be ended by the socialization of agriculture and its combination with industrial production, the liberation of industry, made possible by electric power, from the fetters of geographical concentration. (Capitalism uses only slightly the opportunity to decentralize industry: too many vested interests are menaced. The Henry Ford idea of "combining" industry and agriculture means simply that workers, after their labor in the factory, are to "farm" vegetable gardens to supplement insufficient wages; the real farmers, of course, would suffer from the lower demand.) There must be, and this is wholly possible, a mass participation in higher learning. Out of these conditions will arise the new ideology of stressing the dignity of *work*, and not its forms. . . .

While the technology conditioned by electricity means partly "a different *kind* of machine," it does not mean "a different *kind* of social relations," <sup>25</sup> does not change the fundamental social-economic relations

of capitalist production.\* Electricity, technologically, has induced many

\* A group of engineering mystics, the Technocrats, worship at the shrine of Power. They forget that power does not function in emptiness, that it needs machines, apparatus, and labor, and that all the factors are conditioned by social-economic relations. From 1860 to 1890, the productivity of labor increased more than the consumption of power, because machinery increasingly supplanted manual labor. From 1890 to 1914, the consumption of power increased more than productivity, because there were no fundamental changes in machinery. From 1919 to 1929, productivity increased more than power consumption, because, primarily, of an essentially new type of machine. In terms of electric power, the electrification of American manufactures rose from 5% in 1899 to 56% in 1919, with a very small increase in the productivity of labor; it rose to 82% in 1929, a smaller rate of growth accompanied by a great increase in productivity. (*Census of Manufactures*, 1929, v. I, p. 112.) The greater increase in the productivity of labor in 1919-29 was primarily the result, not of electric power in itself, but of the development of the *electrical machine* and of *electrochemistry*. In 1899-1919, electricity, by and large, was merely used to replace steam power in driving old types of machinery. Moreover, productivity in 1919-29 was increased by changes in the organization of labor, by the more scientific utilization of raw materials and their wastes, and by the increasing use of synthetic materials (in the creation of which chemistry is as important as electricity). While horsepower per wage-worker rose 54% in 1899-1919, it rose only 49% in 1919-29. Manufactures in 1929 used less than 6% of installed horsepower; 80% was used in buses and automobiles, 90% of it under the hoods of pleasure cars. (C. J. Hirshfeld, "Power," *Toward Civilization*, p. 74-75.) The use of power in automobiles and the home undoubtedly has a profound influence on social life, but not directly on production (except in demand for goods), and production is basic. Price spoils the promise of power, say the Technocrats, in the manner of the most doctrinaire price economists. But price is only *one* element in the capitalist mechanism, and not the most basic; price in the Soviet Union exists without the disturbances characteristic of the capitalist economy. And do they think they can tinker with price relations without abolition of private property and profit? The Technocrats' power-mysticism makes them speak of "ergs" and "energy money" as a medium of exchange. This is sheer technological idolatry. It forgets that at every point in the productive process you meet human labor, either living labor in the form of workers or dead labor in the form of the means of production. This is recognized by two engineers, L. P. Alford and J. E. Hannum, who urge that production be measured by a time-rate based on 1,000 productive man-hours, the "kilo man-hour" or kmh: "One hour of human work is the objective equivalent of any other hour of human work, when each hour is averaged from the total number of productive hours worked by the group to which the worker belongs. This is the principle of economic or exchange equality, which must be enforced to stabilize the interchange of goods, articles and services between the members of one producing group and those of any other working group." (*New York Times*, February 4, 1934.) The kmh is urged, fantastically, as the basis for capitalist planning; but what is it, in final analysis, but the labor theory of value, which Marx analysed most thoroughly? The amount of socially necessary labor incorporated in a commodity determines its value; this is distorted by capitalist production, and commodities nearly always sell above or below their value (a basic factor in capitalist disturbances), but only changes in the amount of labor incorporated in commodities can explain long-time changes in price.

qualitative changes in the machinery, apparatus, and chemical processes of production; and without it remote control would be impossible. But economically, the changes are merely quantitative; electricity realizes more fully the inherent automatic principle of machinery, and, by tremendously increasing the productivity of labor, aggravates the antagonism between production and consumption and multiplies the strains and stresses of capitalist industry. Thus the newer electric technology is an *accelerating* agent, as were all former great technological changes. But this acceleration is the more significant because of an *economic* change: in the epoch of the upswing of capitalism the curve of production was upward, now it is *downward*. The threefold results are an expression of the general crisis and decline of capitalism:

The rate of increase in production is *smaller* (where it is not minus) than in the productivity of labor.

The displacement of labor becomes *absolute*; where formerly the industries producing capital goods absorbed relatively more workers than the consumption goods industries, *now they displace more workers*.

TABLE V

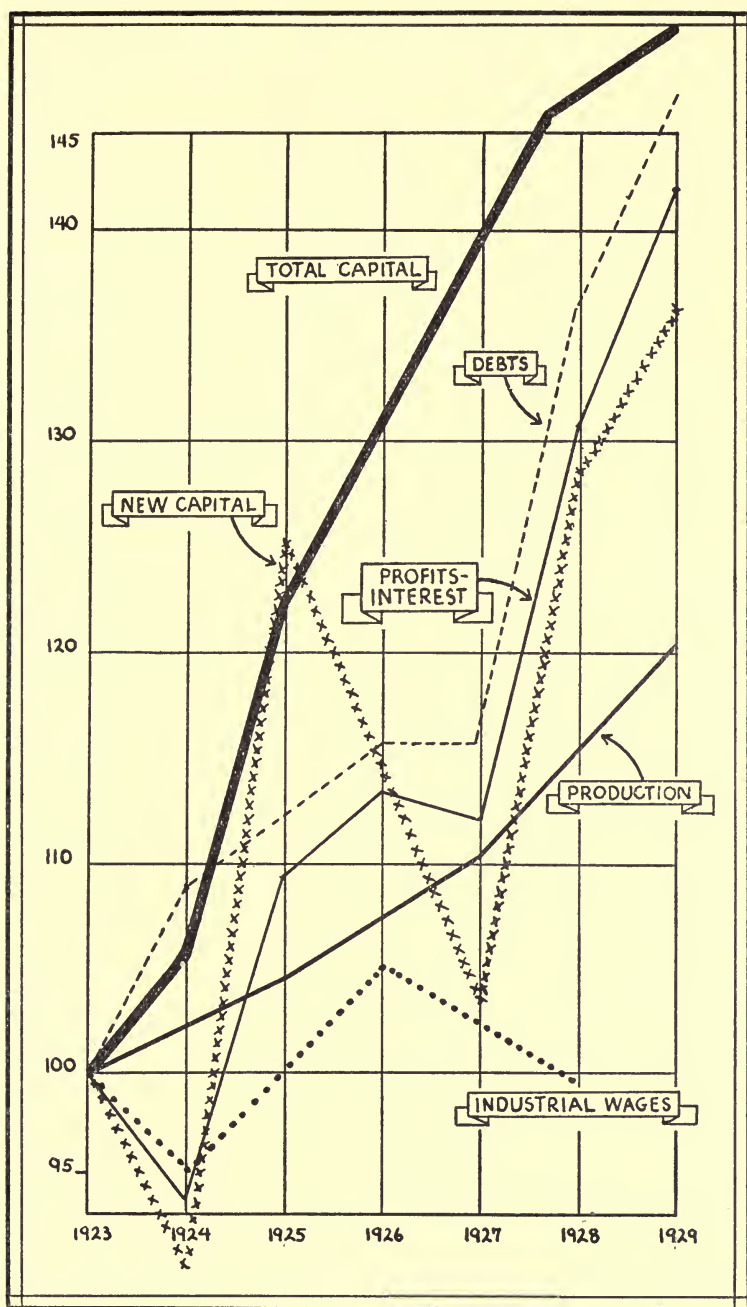
*The Increase in Production, Capital Claims, and Wages, 1923-29*

Year	Production	New Capital	Total Debts	Total Capital	Profits-Interest	Industrial Wages
1923	100.0	100.0	100.0	100.0	100.0	100.0
1924	*	87.7	108.1	105.8	92.3	95.0
1925	103.5	125.8	112.3	122.8	109.4	99.9
1926	*	115.3	114.0	131.3	113.0	105.3
1927	110.1	102.7	114.1	139.3	111.2	102.3
1928	*	128.6	136.1	145.0	131.9	99.7
1929	120.6	136.1	146.9	152.7	143.8	*

\* Not available.

Production is value output of manufactures. New capital is net issues of securities, less issues of investment trusts and trading and holding companies; debts includes funded and unfunded obligations; total capital includes net new issues and corporate savings, or surplus. Industrial wages is the wages of workers in manufactures, mines, quarries and oil wells, construction and transportation (including electric power, telephones and telegraphs), water transportation, and municipal traction; these wages amounted to \$18,105 million in 1923 and \$18,050 million in 1928.

Source: Production—*Census of Manufactures*, 1929, v. I, p. 16; new capital—F. C. Mills, *Economic Tendencies in the United States*, pp. 427, 438; total capital—Bureau of Internal Revenue, *Statistics of Income* for the respective years; total debts—Robert R. Doane, *The Measurement of American Wealth*, p. 173; wages—W. I. King, *The National Income and Its Purchasing Power*, pp. 132-33.



XII. PRODUCTION, WAGES, AND CAPITAL CLAIMS.



The tendency for capital claims to increase faster than production becomes more marked.

Capital claims, profits, and interest in 1923-29 grew at a faster rate than production (Table V), much faster than in former years. This is particularly evident in new capital investment, which rose 36.1% compared with 20.6% in production. While the growth of capital claims always outstrips production, this becomes more marked as capitalism approaches maturity and decline. Much of the higher productivity of labor represented no new capital investment; but the composition of capital, nevertheless, was increasingly higher, and, because of excess capacity and the tendency of the rate of profit to fall, a constantly greater capital investment was necessary to produce a unit of product. Capital claims, moreover, do not arise only out of investment in production, but out of "investment" in mere *claims* upon production. This tendency was sharpened in 1923-29, because the increasingly speculative character of industry multiplied capital claims regardless of production. The marvels of technology enlarge the wholly predatory superstructure of production, a decisive aspect of monopoly capitalism.

Corporate debts increased nearly as much as other forms of capital claims. To make this the causal factor in "unbalancing" the economic system is a total misunderstanding of the facts, where it is not mere apologetics. Debt is itself a capital claim. It can be separated only in a functional sense, not on principle. The debt of industrial corporations is an expression of the constantly greater capital investment needed to produce a unit of product, of the excess capacity and intensified competition which force down the rate of profit and result in deficits and borrowing. The debt of non-industrial corporations, and most of their non-debt capital, represents mere claims upon production. Pressure of surplus capital, the outcome of capital, profits, and interest increasing more than production, multiplies mere "claim" capital, particularly in the form of debt. The debts of the farmers represent an intensification of capitalist exploitation and the permanent agricultural crisis (smaller markets, larger output, and still larger productivity). Thus the increase in debt arises out of the aggravation of basic maladjustments and disturbances in the capitalist economy. It is also evidence of growing parasitism, the "purest" form of which are the world's enormous government debts. As an element of rigidity in the economic structure, debt is simply one of the many rigid elements in monopoly capitalism—control over output, markets, and prices, and, in depression, interference with the forces of liquidation. All of these elements intensify depression and hamper recovery. Scale down debts or abolish them, and they

rise anew; for debt *must* increase under the conditions of capitalist production.

As capital claims grow faster than production, more pressure is put on capitalist enterprise to "earn" larger profits. Excess capacity and competition are aggravated, including the struggle for foreign markets. Higher profits and interest payments proportionally lower mass purchasing power, and sharpen the antagonism between production and consumption. Wages are slashed or merely maintained: during three of the five years 1924-29, total industrial wages were *below* 1923, while capital claims, profits, and interest rose. More efficient equipment is introduced and labor displaced. (In the epoch of the upswing of capitalism the introduction of more efficient equipment, and the resulting higher composition of capital, lowered relative wages, but total and average wages rose because of the increase in production and markets. Under the conditions of capitalist decline, however, the tendency is for new equipment to result in lower total and average wages, as the great costs of the newer machines and apparatus become relatively still greater because production and markets are restricted and the costs of excess capacity rise.)

Higher capital claims and labor displacement are interlocked. Displacement is most significant in the industries producing capital goods, upon which capitalist production depends (Table VI). Up to 1919 these industries absorbed an increasingly large number of workers, relatively more than the industries producing consumption goods. That meant

TABLE VI

*Displacement of Labor in Capital Goods Industries, 1914-29*

	NUMBER OF WORKERS EMPLOYED:			
	1914	1919	1923	1929
Machinery	575,000	960,000	850,000	975,000
Iron and Steel	435,000	600,000	625,000	615,000
Other Metal	170,000	215,000	210,000	220,000
Transport Equipment	395,000	840,000	545,000	435,000
Stone, Clay, Glass	185,000	155,000	195,000	220,000
Lumber Products	215,000	215,000	235,000	220,000
Totals	1,975,000	2,985,000	2,660,000	2,685,000
Construction	1,492,000	1,078,000	1,162,000	1,400,000
Mines and Quarries	310,000	296,000	*	263,000

\* Not available.

Source and methods of computation: same as in Table V, Chapter XIII, except that, because of exclusion of oil wells, one-third of workers in mines and quarries are credited to capital goods work.

an upswing of capitalism, an increasing output and absorption of capital goods. It meant also an offset to the displacement of workers by the rising productivity of labor. But the rate of absorption of workers in capital goods industries slowed down considerably from 1914 to 1919, with the rate thereafter changing to one of displacement. The number of capital goods workers rose from 3,777,000 in 1914 to 4,348,000 in 1929, an increase of only 15%; but the increase in fact was much smaller because the one was a year of depression and the other one of prosperity.\* While the statistics indicate that the rate of absorption was at a standstill in 1919-29, it actually became one of displacement; for the decrease in the number of capital goods workers from 4,359,000 to 4,348,000 was small only because the number of construction workers in 1919 was unusually small owing to the war-time drop in building. In 1929 the number of construction workers was *below* the 1914 level. (In 1914 construction workers represented 39% of all capital goods workers, in 1929 only 32%. This decrease is of extraordinary significance; because of the undeveloped inner continental areas, construction has played a more important part in the American accumulation of capital than elsewhere.) If construction is omitted, the number of capital goods workers fell from 3,281,000 in 1919 to 2,948,000 in 1929. The loss was wholly in transport equipment and mining, but with employment stationary, although labor was relatively displaced, in the other industries. These other industries in the past absorbed increasingly more workers and the production of transport equipment was for a time the most important element in the accumulation of capital; its displacement of labor is an expression of the exhaustion of the long-time factors of expansion in transportation, offset only in small part by the motor truck.

In the epoch of the upswing of capitalism the number of industrial workers grew constantly. In particular, the capital goods industries *absorbed* more workers than the industries producing consumption goods; but now they *displace* more workers. In manufactures, in 1919-29, the decrease in capital goods workers was 300,000 or 10%, in

\* The slowing down of capital goods production is a world development. The number of workers engaged directly in the manufacture of industrial machinery in England, Germany and France, according to Friedrich Kruspi, "Machinery, Industrial," *Encyclopedia of the Social Sciences*, v. X (1933), p. 6, rose from 875,000 in 1913 to 1,037,000 in 1925; in the world as a whole from 1,891,000 to 2,055,000, or only 9%. The increase was almost wholly English, and was due more to the relatively small rise in the productivity of labor than to any considerable rise in output. In all industrial countries, moreover, the number of workers in capital goods industries tended to decrease from 1920 to 1929.

consumption goods workers 138,000 or 2%. This complete reversal of previous trends took place when the American economy was still on the upswing, although the rate of expansion was downward; it now becomes the creator of an increasing surplus population of unemployed and unemployable workers. *For it not only means that the productivity of labor is rising more than production, but that technological displacement of workers is aggravated by the downward movement of production, particularly in capital goods.*

Some urge "control" of the machine. But since the machine acts as it does only because of the social-economic relations of capitalist production, control is possible only when socialism abolishes private property and profit. The Cigar Makers International Union, supported by William Green, urges legislation to tax employers to contribute "toward the relief of the displaced employees until such time as they may be absorbed elsewhere."<sup>26</sup> This proposal might have been of some value in the epoch of the upswing of capitalism, when absorption was greater than displacement. But now, with permanent displacement on a mass scale? It means poor relief.

Others urge a revolt against the machine. Either "down with machines" or a "moratorium" on the introduction of new machines. (Many NRA codes forbid the introduction of new machinery unless first approved by the code authorities.) That is revolt against the increasing purposive application of science, against all the possibilities of plenty, leisure, and culture inherent in technology if freed of its capitalist fetters. These possibilities might be measurably realized by mere use of existing equipment. The efficiency of this equipment, moreover, is very uneven; in blast furnaces the range of production is from 145 tons per 1000 man-hours to 1,313 tons, and in petroleum refineries from 633 barrels to 141,829 barrels.<sup>27</sup> Thus productive efficiency, and the mass of goods and services, might be greatly augmented by raising all industry to the level of the most efficient existing equipment. But still greater are the *possibilities* of technological progress, and of plenty and leisure for all. "Our chemical techniques and manufacturing processes," in the opinion of Prof. Richard Willstaetter, Nobel Prize winner in chemistry, "are usually drastic and crude, resembling forces of the inorganic rather than of the organic world. It is our task to appropriate more and more the delicate methods of the living cell, where reactions proceed at normal temperatures and pressures, with mild reagents, and with the most subtle catalysts."<sup>28</sup> And when American scientists produced in furnaces metals which occur rarely in nature and which are indistinguish-



able from the natural product, the scientific comment was: "It is impossible to say when the theory of to-day will become the practice of to-morrow."<sup>29</sup> Yet both research and its application are being restricted by capitalist decline. Only the Soviet Union offers an unlimited opportunity for science and its technological application, freed of capitalist fetters.

But the technological basis of capitalism is a force which perpetually changes the material relations of production.\* Decline will limit the progress of technology, but will not stop it. (The greatest technological advance will be made in armaments, increasing their powers of destruction.) In the midst of the greatest depression in history there was technological improvement, an increase in the productivity of labor. This limited progress will not realize the full possibilities of science. But it will aggravate economic maladjustments and disturbances; for technological improvements will proceed even more haphazardly and unevenly than in the past. *And a smaller rate of technological change than formerly will be more disturbing because of the downward movement of production and the absolute displacement of labor.*

The resulting surplus population is composed mainly of workers. But it includes other elements of the population, who also feel the pressure of capitalist decline.

From 1919 to 1929, large numbers of farmers and farm workers were displaced, at least 500,000. The main factor was increasing productive efficiency, as the markets for agricultural products were virtually constant. The government's "farm relief" program accelerated displacement and augments the agricultural surplus population. Thus R. G. Tugwell, Assistant Secretary of Agriculture, says: "We must study and classify American soil, taking out of production not just one part of a field or farm, but whole farms, whole ridges, perhaps whole regions. . . . It has been estimated that when lands now unfit to till are removed from cultivation, something around 2,000,000 persons who now farm will have to be absorbed by other occupations."<sup>30</sup> But these "other occupations" are also displacing workers who must find other work. Moreover, if all farms used the most efficient meth-

\* "The bourgeoisie cannot exist without constantly revolutionizing the instruments of production, and thereby the relations of production, and with them the whole relations of society. Conservation of the old modes of production in unaltered form was, on the contrary, the first condition of existence for all earlier industrial classes. Constant revolutionizing of production, uninterrupted disturbance of all social conditions, everlasting uncertainty and agitation distinguish the bourgeois epoch from all earlier ones." Karl Marx and Friedrich Engels, *The Communist Manifesto*.



ods, the displacement would be even larger than the 2,000,000 envisaged by Tugwell. The movement for "subsistence farms" means simply a desperate evasion of the problem and a lowering of living standards. If large-scale farming grows, it will intensify, because of constant markets, the economic pressure on the smaller farmers, displacing them or lowering their income. The American farmers are steadily becoming peasants, with many of them thrown into the surplus population.

Clerical workers are also swelling the surplus population. The number of "salaried employees" in manufactures fell from 1,447,000 in 1919 to 1,358,000 in 1929,<sup>31</sup> a loss of 6.1% (compared with 1.8% among wage-workers). But the loss was actually greater, as the figures include managerial employees and officers, whose numbers increased. The modern office, with its array of machines and appliances, resembles a factory. There is increasing mechanization, transfer of skill, and division of labor. Clerks, statisticians, and bookkeepers are replaced by machines tended largely by semi-skilled workers. Many of the machines are automatic. Mechanization lagged in office work; its speeding-up resulted in a displacement of clerical workers greater than among wage-workers.

From 1919 to 1929, the number of technical workers increased much faster than the demand. Already before the depression it was hard for graduates of technical schools to find jobs; it is becoming harder. Technicians are scourged by permanent unemployment. The situation in Germany is characteristic, if most acute; in 1930, according to one professor of engineering, only 20% of technical graduates got jobs, another 10% continued studying, 20% took any kind of job, and 50% were wholly unemployed. And the only suggestion the professor has is this: "Is it not time to put a stop to this mass striving for higher learning?"<sup>32</sup> (That is exactly what fascism is doing, with a similar trend in non-fascist countries: one of the most suggestive aspects of the decline of capitalism.)

Most clerical and technical workers have been pushed down to the occupational level of wage-workers. In the earlier stages of capitalism the clerical worker was measurably a "higher" employee, in the confidence of the employer, considering himself in the same class. The technician, who originated in the master mechanics of the early factory system, was made a member of the "free" professions by the technological transformation of industry; now he is practically a wage-worker, in many cases earning less than the organized skilled workers. Yet these "white collar" workers still cling in large measure to the

older ideology, still consider themselves apart from the working class. This is true also of the non-industrial "free" professions, although many of their members are employees either of corporations or public institutions. All of these groups are heavily represented in the surplus population. In January, 1934, of 25,127 "white collar" workers on Civil Works Service relief payrolls, 6,240 were professionals: 1,841 teachers, 763 doctors, dentists and nurses, 632 engineers, chemists, architects and draftsmen, and hundreds of musicians, artists, sculptors, actors, librarians, cartographers, botanists, geologists, research workers, statisticians and translators.<sup>33</sup> The "new" middle class is being rapidly proletarianized, thrown into the surplus population.

The surplus population not only grows quantitatively, it also changes qualitatively. In the epoch of the upswing of capitalism the surplus population grew slowly; it was essentially a labor reserve, facilitating the expansion of capitalist production. In the epoch of decline, however, the rapidly growing surplus population ceases being a mere labor reserve; *it restricts the production of surplus value and profits and threatens capitalist domination.*

Increasing unemployment means a decrease in the number of workers producing surplus value, whose realized form is profit. "Profit comes, not from a diminishing of the labor employed, but from a diminishing of the labor paid for."<sup>34</sup> This is bound up with a basic contradiction of the capitalist mode of production: "The workers as buyers of commodities are important for the market. But as sellers of their own commodity—labor power—capitalist society tends to depress them to the lowest price."<sup>35</sup> Consumption is necessary to production; but capitalism limits the wages and consumption of the workers, thus creating cyclical crises and breakdowns. Another form of the contradiction: capitalist production depends upon the workers, upon the living labor which yields surplus value and profit; but capitalism tends to displace workers. In the epoch of the upswing of capitalism the displacement was relative; the increase in the number of workers meant an increase in the mass of surplus value and profit, which checked the tendency of the rate of profit to fall. Now absolute displacement of workers on a constantly greater scale means a decrease in the mass of surplus value and profit. Unemployed workers do not produce surplus value. Neither do they consume, or they consume very little. The mass of surplus value shrinks, in spite of a rise in the rate, as the mass of workers shrinks. And markets shrink as the workers consume less. Excess capacity rises and the rate of profit falls. For machines neither produce surplus value nor do they consume. The

one is necessary to yield profit, the other to sustain production. These are the conditions which exist in depression, and they become chronic in the epoch of decline. Thus the surplus population threatens the economic foundations of capitalism.

It also threatens capitalism politically. Mass disemployment is potential with revolution. Unemployed workers must be fed (as niggardly, of course, as possible) to prevent revolt. This means a drain upon the wages of employed workers; it also means a drain upon profits in the form of higher taxes, as long as there is the fear or possibility of action by the workers. By every means in its power, however, the capitalist class attempts to throw all the burdens of disemployment and decline upon the workers; where "democratic" means fail, it resorts to fascism. Social disturbances become social upheavals. Capitalist monopoly tightens its grip upon industry, the capitalist oligarchy its grip upon society and government. The resort to war becomes more possible and more frightful. Technology, although limited in its progress and because of it, creates new economic maladjustments and disturbances; and it becomes clearer that the capitalist mode of production is wholly relative and historical, that it imposes new fetters upon the technical-economic forces of society. These forces revolt against the fetters imposed upon them, they thrust forth the need for new social relations of production. As mass standards of living fall and mass misery grows, the struggles of the workers take on new and higher forms, attracting other exploited elements. For while, in the words of Marx, there is "an increase in the mass of misery, oppression, enslavement, degradation and exploitation," with this "grows the wrath of the working class, a class always growing in numbers, and disciplined, united, organized by the very mechanism of capitalist production itself. The monopoly of capital becomes a fetter upon the mode of production which has flourished with it and under it. The centralization of the means of production and the socialization of labor reach a point where they are incompatible with their capitalist husk. This is burst asunder. The knell of capitalist private property sounds. The expropriators are expropriated."<sup>36</sup>

## Summary

UNEMPLOYMENT is a normal aspect of capitalist production, which needs a labor reserve for the expansion of industry and to beat down wages. The amount and character of unemployment are closely associated with the development of capitalism.

In the earlier stages of industrialism, the displacement of labor by machinery tended to be absolute, because the productivity of labor generally rose more than production. There was the growth of a surplus population and increasing misery.

In the epoch of the upswing of capitalism the creation of a large surplus population was checked in the industrial countries. Production, particularly of capital goods, rose more than the productivity of labor. Displacement was relative, employment increased. Nevertheless, normal, technological, and cyclical unemployment was a constant and increasing torment to the workers. This was especially true in the United States after 1860, when a surplus population appeared for the first time. And the check in the growth of the surplus population in the industrial countries of Europe was mainly due to the exploitation of economically backward peoples, among whom there was an increase in the surplus population and increasing misery.

If, in the epoch of the upswing of capitalism, unemployment increased in spite of the fact that production rose more than the productivity of labor, it must increase still more in the epoch of decline, when the curve of production moves downward while technological efficiency and productivity move upward. The displacement of labor is absolute, unemployment tends to become permanent *dis*employment, and the surplus population grows. After the World War, under the impact of economic decline, normal unemployment was greatly augmented in most of the capitalist nations of Europe. It compelled adoption or extension of unemployment insurance and relief plans, which American businessmen considered the sad necessity or moral flabbiness of people not nourished on the traditions of "rugged individualism." But during the same period, in spite of and because of prosperity, unemployment was increasing in the United States, although not as yet on the European scale. This was more than mere repetition of

former experience. For the first time in American history there was an *absolute* displacement of labor in manufactures, transportation, and agriculture. It marked the coming to maturity of the elements of the decline of American capitalism.

The tremendous cyclical unemployment in 1930-34, nearly twice as great *relatively* as in the worst of former depressions, is an indication of what is to come. If and when production reaches the 1929 level, there will still be 6,000,000 to 8,000,000 unemployed workers. Nor can state capitalism or fascism check this development, for it is a result of economic decline, of the fact that production moves downward while technological efficiency and the productivity of labor move upward. Workers are thrown out of work both by lower production and higher productivity. Where formerly technological changes meant only a relative displacement of labor, now they mean an absolute displacement. The surplus population grows. It threatens capitalist profit, because permanent unemployment limits the production of surplus value. And it threatens capitalist domination, because mass disemployment is potential with the threat of revolution.

Underlying permanent unemployment is the unequal division of the proceeds of industry. For unemployment is essentially the result of the antagonism between production and consumption, of the fact that capitalism augments production and profits while it limits the income and consumption of the workers. A piling up of capital claims, profits, and interest occurs as the composition of capital becomes increasingly higher. This forces lower wages and displacement of labor. The unequal distribution of income and wealth tends to become more unequal. The increase in capital claims and unemployment are interlocked with each other; both are interlocked with the distribution of income and wealth, which responds sensitively to technical-economic and class changes.





PART SIX

Concentration of Income and Wealth



## Introductory

THE unequal distribution of income and wealth renders absurd all capitalist society's pretensions to democracy and equality. It sticks like a bone in the throat. And it threatens to choke capitalism, for the unequal distribution arises out of and aggravates all the maladjustments and disturbances of capitalist production.

Although the concentration of income and wealth has become constantly greater, many capitalist apologists have always insisted that it was breaking down. This was one of the major claims of the pre-1929 "new capitalism." The logic of the illogical assumption that the "policy" of increasingly higher wages was *accepted* by the employers led the prophets of the "new capitalism" to insist:

That, in the words of President Calvin Coolidge, "the results of prosperity are going more and more into the homes of the land and less into the enrichment of the few."<sup>1</sup>

That, consequently, the distribution of income and wealth was becoming more equal, more democratic; the indubitable proof of which, according to the apologists, being the "enormous" increase of "mass" participation in stock ownership.

Now, in the cold gray dawn of the morning after, it is said that *if* the distribution of the proceeds of industry *had* been less unequal there would have been no cyclical crisis and depression. This was also said by the prophets of the *new* "new capitalism" of Nirraism. Thus Rexford Guy Tugwell declared that "imperious necessity" compels a "more even" and "just" distribution of wealth and income among "the people as a whole," otherwise "our whole economic structure falls into idleness and ruin." And Harold L. Ickes, Roosevelt Secretary of the Interior, said:

"A bloodless revolution has occurred, turning out from the seats of power the representatives of wealth and privilege. . . . I believe that we are at the dawn of a new era when the average man and woman and child in the United States will have an opportunity for a happier and richer life. And it is just and desirable that this should be so. After all, we are not in this world to work like galley slaves for long hours

at toilsome tasks, in order to accumulate in the hands of 2% of the population 80% of the wealth of the country.”<sup>2</sup>

Thus Nirraism created its ballyhoo. And “practical” economists manufacture theory to make the deception appear rational. But the history of capitalism is full of promises to “equalize” income and wealth, while their concentration was becoming steadily greater. And the promises burst into new life precisely at the moment when, under the conditions of capitalist decline, the income of the workers must decrease while the concentration of wealth and income becomes relatively greater.



## Class Distribution of Income

WHILE some capitalist apologists, contrary to the facts, have insisted that the distribution of income was becoming more equal, others have used economic theory to justify the existing unequal distribution. It was assumed that "fixed natural laws" determined "distributive shares," according to productive function performed. The theory was fundamental in the system of the American economist, John Bates Clark:

"There are fixed laws of distribution which society is not at liberty to violate. . . . Where natural laws have their way, the share of income that attaches to any productive function is gauged by the actual product of it. . . . Wages are the whole product of labor. . . . Every laborer is paid the exact equivalent of what he produces and capital receives the exact equivalent of what it produces. . . . Natural law, so far as it has its way, excludes all spoliation."<sup>1</sup>

The animus is clear—the same animus of the efforts to disprove the Marxist theory of value by means of the subjective theory of marginal utility, now discredited: labor is not necessarily exploited under the social relations of capitalist production, and its share of the national income, however small, is fixed, natural, and just.

A variant of the "fixed shares" theory is the "law" formulated by Vilfredo Pareto, the "philosopher" of fascism, that *income distribution is essentially the same in all countries and at all times*. Analysis has demonstrated, however, that the "law" is mathematically inaccurate and statistically disprovable. (It is also disproved by Pareto's Italy, where, since the advent of fascism, the unequal distribution of income has become more unequal.)

These theories rest on the assumption, unreal and apologetic, of an economic order based on "natural law," in which the free play of economic forces assures functional harmony and the "larger good." But there is no such order. Economic forces are not eternal, they are historical. They work, not in an unreal world of "natural law," but in the midst of class rule and exploitation, of social-economic change and conflict which affect the movement of economic forces, including the distribution of income. The only "eternal" aspect of income is that,

under a system of private property and class rule, *its distribution must be unequal, with the producers getting the smallest share*. There are long-time movements and short-time fluctuations, but concentration of income always tends *upward*.\*

Capitalism augments the unequal distribution of income. One of the most competent investigators of the subject writes: "General historical knowledge would lead one to infer that numerically the income inequality must have been smaller in pre-capitalist Europe than at present, if only for the reason that incomes were then absolutely lower and that the lower limit of incomes is more rigid than the upper. . . . In those countries in which personal distribution of income has been measured for some time past the preponderance of evidence is toward increasing inequality of incomes."<sup>2</sup> In the earlier stages of capitalism there was a "broadening" of income concentration at the top of the social pyramid, because of the emergence of rich bourgeois merchants and speculators; but concentration was increased relatively to the mass of the people, and kept on increasing. The curve of income distribution in capitalist society is *not* constant; its upward movement and fluctuations profoundly affect social-economic maladjustments and disturbances. . . .

In the colonial and early national periods of the United States, the unequal distribution of income, largely because of an agrarian economy,

\* It is suggestive that engineers, who think they have a "new" approach to economics, merely vulgarize the older unreal concepts. Thus the Technocrats emphasize price, in the manner of the most extreme price economists, but with a slant of their own. Another engineer economist swallows Pareto's law: "Competition has always distributed incomes according to some sort of a probability curve. . . . In the same way we could express the probability that any molecule in a mass of gas would have any one of various velocities. . . . In any particular nation and at any particular stage of social progress the distribution appears to have a certain *normal* form about which it fluctuates but toward which it always tends to return. In fact, the general form of this normal distribution probably has not changed greatly throughout history." H. C. Dickinson, "The Mechanics of Recovery," *S. A. E. Journal* (Society of Automotive Engineers), February, 1933, p. 2. Dickinson, who thinks the economic system "is a mechanism, a machine," argues that its "*instability can be controlled through adjustments of the mechanism itself without disturbing the present competitive economic system.*" But the instability is a result of the working of the capitalist system itself. And the "adjustments" needed are not mechanical: they are social, involving class interests and class conflicts. This angle meets the engineer at every turn. How often is he thwarted in the mechanical, functional approach toward the construction of, say, machines and bridges, by the pressure of capitalist profit and vested interests! How often is his suggestion for the installation of safety devices rejected because of their cost! How little attention is paid to his arguments that technology is capable of providing plenty for all!

was not great, although increasing. It increased tremendously during the Civil War, because of the growth of industrial capitalism and, particularly, of speculation. A slight downward tendency was apparent from 1870 on; but this was temporary and was accompanied by a multiplication of millionaires—4,000 in 1892 compared with probably 500 in 1860.<sup>3</sup> Concentration thereafter grew swiftly, in the period of relative economic decline; the share of the national income received by the richest 1.6% of the population rose from 10.8% in 1896 to 19% in 1909,<sup>4</sup> an increase of nearly 100%. In the early years of the World War concentration mounted to new heights; incomes of \$100,000 up rose from 2,290 in 1914 to 6,633 in 1916,<sup>5</sup> a year of extraordinary profits nourished by speculation and the butchery of European peoples. Concentration of income tended downward after the United States entered the war, because of high taxation and the depreciation of fixed incomes through sharply rising prices. Fortunes connected with war industries and speculation increased enormously, however, and many new fortunes were created. Much of the decrease in concentration was nominal, and all of it was temporary. A large part of corporate earnings, to escape taxation and expand production, was reinvested in the enlargement or modernization of plant and equipment. This, in the post-war period, accrued to the benefit of stockholders in the form of high cash and stock dividends; the latter alone amounted to \$4,240 million in 1922–23.<sup>6</sup>

The wholly temporary downward fluctuations of the war period were used to back up the argument that income was being "equalized" and "democratized." It was backed up by more "proof" in the form of an apparent reduction of income concentration in 1921–22. But those were depression years, when swollen incomes are deflated and all incomes move downward. This is not, however, an indication of more equal distribution of income, for millions of workers, farmers and professionals stop being income receivers. Mass unemployment augments the concentration of income. In 1932, one study reveals, salaries and wages were 40% lower than in 1929, property income only 31% lower. *Wages alone were 60.2% lower, twice the loss in property income, indicating greater concentration of income in depression.*<sup>7</sup> Moreover, throughout 1923–29, when the apologists insisted that income distribution was becoming more equal, it was in fact becoming more unequal (Table I). The concentration of income was greater than in any pre-war period, and greater than in any other country in the world.

While the farmers' income fell disastrously and wages almost stood still, the income of the upper bourgeoisie (incomes of \$10,000 up) rose

TABLE I

*The Movement in the Distribution of Income, 1920-29*

YEAR	<i>Incomes of</i> \$10,000 and Up		<i>Incomes of</i> \$3,000 to \$10,000		<i>Wage-Workers</i>		<i>Farmers</i>	
	AMOUNT		AMOUNT		AMOUNT		AMOUNT	
	(millions)	INDEX	(millions)	INDEX	(millions)	INDEX	(millions)	INDEX
1920	\$6,761	100.0	\$9,132	100.0	\$29,540	100.0	\$9,394	100.0
1921	5,056	74.8	7,497	82.1	23,353	79.1	5,562	59.2
1922	6,211	91.9	8,225	90.1	24,553	83.1	6,097	64.9
1923	6,812	100.8	10,689	117.0	28,691	97.1	6,796	72.3
1924	7,910	117.0	11,257	123.2	29,051	98.4	7,092	75.5
1925	10,783	159.5	*	*	30,762	104.1	7,836	83.4
1926	10,877	160.9	*	*	32,604	110.4	6,941	73.9
1927	11,642	172.2	*	*	32,884	111.3	7,119	75.8
1928	14,472	214.0	*	*	32,235	109.1	6,830	72.7
1929	14,466	214.0	*	*	*	*	*	*

\* Not available. Incomes of \$3,000 to \$10,000 kept on rising; in the case of incomes from \$5,000 to \$10,000, for which data are available, the index rose from 111.9 in 1925 to 145.1 in 1929.

Source: Incomes of \$3,000 to \$10,000 and up—computed from Bureau of Internal Revenue, *Statistics of Income* for the respective years; wages and farmers' income—W. I. King, *The National Income and Its Purchasing Power*, pp. 108, 132.

114% in nine years. Substantial gains were also made by the intermediate incomes of \$3,000 to \$10,000. Gains were greatest in the higher brackets. The number of persons with incomes of \$100,000 up increased from 4,182 in 1923 to 14,816 in 1929, compared with 6,633 in 1916; they reported a total income of \$1,127 million in 1923 and \$5,088 million in 1929.<sup>8</sup> Income was redistributed—upward.

Any downward fluctuations in the concentration of income are not only temporary, they *must* be temporary. Capitalism is based upon private property in the means of production; and property constitutes an economic and legal claim upon income, which must be satisfied by the labor of the producers. The concentration of income becomes constantly greater under capitalism because it is an economic system in which wealth breeds more wealth than in other systems. Exploitation of the workers yields surplus value and income, part of which is invested, is capitalized, yielding more surplus value and new income. As the capital needs of industry grow, under pressure of expansion and the increasingly higher composition of capital, capital and capital claims grow and impose a larger tribute on production, which does not correspondingly grow. Profits and interest rose from \$10,998 million in 1923 to \$15,816 million in 1929, an increase of 44%; production rose only



20%. This, since ownership of capital and capital claims is highly concentrated, was the solid basis of the growing inequality of incomes.

By and large, *the farther an occupation is from directly productive work, the larger the income it yields*. This is the functional or occupational aspect of class exploitation in a society based on private property. For 1916, the Bureau of Internal Revenue reported (a practice since discontinued) the occupational distribution of income. The statistics, covering incomes of \$3,000 up, give the following interesting results:

Labor, 2,304 returns, 0.2% of the income reported; engineers and architects, 8,047 returns, 1.2% of the income; intellectuals (artists, writers, journalists, actors, musicians, statisticians, teachers), 13,048 returns, 1.5% of the income; farmers, 14,407 returns, 2% of the income, in a year when agriculture was unusually prosperous; salesmen and insurance agents, 19,517 returns, 2.1% of the income; medical profession, including dentists, oculists, and nurses, 20,348 returns, 2.2% of the income; bankers, 6,518 returns, 3.2% of the income; lawyers, 21,273 returns, 3.8% of the income; managerial employees (superintendents, foremen, and others), 38,388 returns, 4% of the income; brokers and real estate and securities salesmen, 17,878 returns, 6.1% of the income; corporation officers, 53,060 returns, 11.3% of the income; industrial capitalists (manufacturers, mine owners, and lumbermen), 27,504 returns, 11.4% of the income; merchants, 54,363 returns, 13.2% of the income; financial capitalists, investors, and speculators, 85,465 returns, 26.6% of the income.<sup>9</sup>

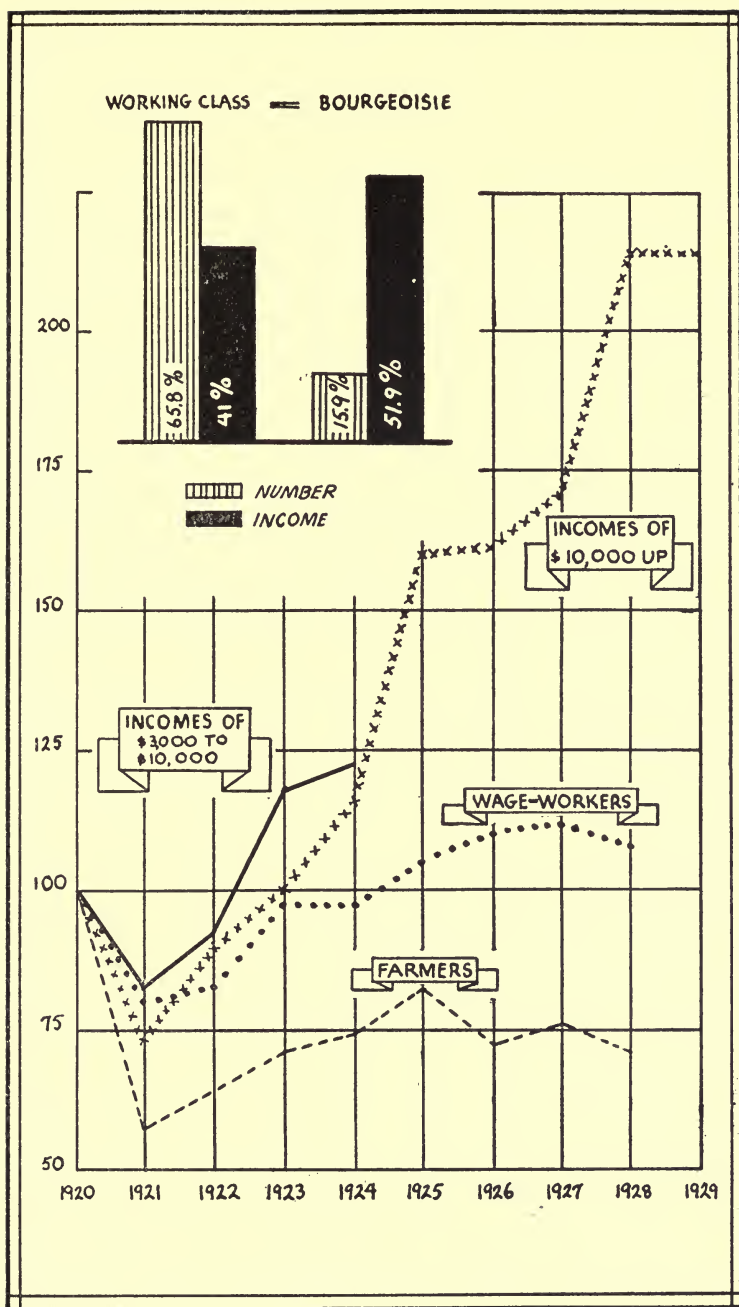
Labor is naturally the smallest of the groups. The more parasitical "functional" occupations (brokers, salesmen, lawyers) secure a fair slice of the pie. Engineers and other professional workers make a poor showing; they acquire large incomes only when they cease being professionals and become primarily promoters and capitalist exploiters. The largest part of the pie is eaten by the capitalists, particularly the financial capitalists, investors, and speculators.

The direct appropriation of surplus value, of workers' unpaid labor, is the source of capitalist income. On the basis of this a struggle goes on to secure larger incomes and incomes from any source. . . . Political power not only sustains class rule and the claims of property to income, it becomes itself a source of income. Politicians plunder the public finances and sell favors to individual capitalists, which in turn become sources of income. . . . The vast natural resources of the United States passed into private ownership mainly through the manipulations of corrupt politicians. The Western railroads were built with grants of public money and public lands, yet their ownership and income accrued to capitalists. . . . The manipulation of political power for



personal ends became after 1860 an increasingly important source of income. . . . This was true also during the World War and the post-war period. The conspiracy to steal the government's oil reserves in Teapot Dome, which was only accidentally frustrated, revealed a cesspool of political corruption. . . . Seventeen officers and directors, including the president, of an oil company mixed up in the Teapot Dome scandal, were sued by stockholders for the return of \$6,000,000 to \$8,000,000. . . . The air-mail contracts let by Postmaster General Walter F. Brown, of the Hoover Administration were enmeshed in conspiracy. Enormous profits were made by officers of the favored lines; the president of one company turned an investment of \$253 into \$9,514,000. . . . Contractors have been making as high as 90% profit on army airplane orders. . . . Officers of corporations not only receive inflated salaries and profits on their stock, but they have other means of adding to their income. One is the "bonus" system. Five officers of one company received bonus payments of \$2,225,000 in 1929. (The company is bankrupt.) Three officers of another company received \$2,770,000 in 1931-32. In a third company the president in 1931 received \$2,627,000 in salary and bonus payments. Stockholders' protests have been unavailing. . . . Another bankrupt company paid \$1,300,000 in 1923-32 to three bankers serving on its finance committee. . . . The chairman of the Chase National Bank received in four years salaries and bonuses of \$1,500,000, made millions speculating in the bank's stock while the bank itself was losing money, and upon his retirement was voted a life "salary" of \$100,000.<sup>10</sup> . . . Corporation lawyers amass millions by a little legal trickery here and there. . . . Corporation directors use their influence to get business for other interests with which they are identified, palm off property they own on the corporations they serve, and speculate on inside information. . . . Bribery is rampant in business. "There are few branches of American business which are not honeycombed by its corroding influence. The average politician is the merest amateur in the gentle art of graft compared with his brother in the field of business. There is more graft in business than there is in political life."<sup>11</sup> . . . Where, under these conditions, are the "fixed distributive shares" determined by performance of productive functions?

In 1928, wage-workers received 34.3% of the total national income, clerical workers 6.7% (Table II). The upper bourgeoisie, only 0.8% of the gainfully occupied, received 21.8% of the national income; the bourgeoisie as a whole 51.9%, although they constitute only 15.9% of the gainfully occupied and the workers 58.5%. American workers



XIII. CLASS DISTRIBUTION OF INCOME—1920-29.

probably receive the smallest share of the national income; the share of the English workers is approximately 45%.<sup>12</sup>

TABLE II

*Class Distribution of the National Income, 1928*

CLASS	NUMBER IN CLASS	PER- CENT	MONEY		AVERAGE INCOME	TOTAL	
			INCOME ( <i>millions</i> )	PER- CENT		INCOME ( <i>millions</i> )	PER- CENT
Working Class:							
Wage-Workers	27,750,000	58.5	\$32,985	37.4	\$1,189	\$32,985	34.3
Clerical	4,750,000	10.0	6,412	7.3	1,350	6,412	6.7
Farmers	7,400,000	15.6	6,830	7.7	923	6,830	7.1
Bourgeoisie: *							
Lower	4,300,000	9.0	11,075	12.6	2,575	12,675	13.2
Intermediate	2,880,000	6.1	14,700	16.6	5,110	16,300	16.9
Upper	382,241	0.8	16,198	18.4	42,400	20,998	21.8
Total	47,462,241	100.0	\$88,200	100.0	\$1,858	\$96,200	100.0

\* Lower bourgeoisie, incomes below \$3,000; intermediate, incomes of \$3,000 to \$10,000; upper, incomes of \$10,000 up.

Source and methods of computation: Money incomes, excluding "imputed" income on durable consumers' goods, was \$81,000 million (M. A. Copeland, "The National Income and its Distribution," *Recent Economic Changes*, v. II, p. 763); to this is added \$2,400 million for food produced and consumed on farms, and \$4,807 million for realized speculative profits (*Statistics of Income*, 1928, p. 12). Total income is the money income plus business savings—\$6,600 million added to corporate surplus and an estimate of \$1,400 million for reinvested earnings of non-corporate enterprises (*Statistics of Income*, 1928, p. 125). Workers' income is W. I. King's estimate of wages plus an allowance for other income. Income of the upper bourgeoisie is the reported income plus tax-exempt income and an allowance of 10% for under-reporting; this allowance of 10%, according to Maurice Leven, *Income in the Various States*, p. 286, "seems to be a conservative estimate, and it is quite probable that, if anything, it is too low." Speculative profits are included because, unlike "imputed" income, they are realized money income with which the recipients may buy goods and services, and which profoundly affect investment, production, and consumption, and, consequently, the whole cyclical movement.

The distribution of income is closely associated with class relations. While it alone does not determine the character of a class (that depends primarily upon its place in the production process), income throws light on changes in class relations and within classes.

In 1923-29, the bourgeoisie increased its share of the national income; as usual it took most of the gains of prosperity. There was, however, a growing concentration of income, more than in former years, within the bourgeoisie. Incomes of \$5,000 to \$10,000 rose from

455,442 in 1920 to 658,039 in 1929, or 45%, while incomes of \$10,000 up rose from 226,120 to 374,032 or 65%. Concentration also increased within the upper bourgeoisie. Incomes of \$100,000 up rose from 3,649 to 14,816 or 306%, and incomes of \$1,000,000 up rose from 33 to 513 or 1,454%. The net income of the million-dollar-income group rose from \$727 million in 1920 to \$4,368 million in 1929, an unprecedented absolute and relative increase.<sup>13</sup> At the same time the upper bourgeoisie, and to a lesser extent the intermediate bourgeoisie, became more markedly a class of financial and speculative capitalists. As finance capital and the banks strengthen their control over industry, financial corporations "earn" the largest profits; this is an expression of the increasingly speculative character of industry under the conditions of monopoly capitalism. The upper bourgeoisie is separated from direct participation in production; as a class of financial and speculative capitalists (with a large element of passively parasitic rentiers) it roams the field of industry, plundering where it may. In 1920-29, the upper bourgeoisie "earned" \$24,064 million in realized speculative profits, of which \$8,000 million were "earned" in the two years 1928-29. They are the masters of industry.

The middle class, the intermediate and lower bourgeoisie with incomes below \$10,000, made great gains both in numbers and in income; the income gains ranged from 40% to 50%. It was the heyday of the middle class. But this class is no longer the old middle class of independent small producers. In 1924, 125,559 individual, non-corporate manufacturers reported net profits of only \$380 million, compared with \$3,437 million for corporate enterprises. Of the total net profits of \$4,755 million reported by 1,645,971 individuals in business (an average of only \$2,900), \$3,150 million was "earned" in trade, amusements, hotels, professional service, and similar occupations. In corporate manufactures, 43,984 of the smaller producers, 50% of the total, made only 1.7% of the aggregate net income, while 967 of the larger producers, 1.1% of the total, made 65.6% of the net income; in 1929, 1,289 of the larger producers, 1.3% of the total, made 75.6% of the aggregate net income.<sup>14</sup> Thus the small, independent industrial producers, the essential element in the old middle class, merely linger on, an economic anachronism deprived of real power. Their importance steadily decreased in 1920-29. The real gains were made by the "newer" elements of the middle class, concentrated in the intermediate bourgeoisie with incomes of \$3,000 to \$10,000. More than half of them, the most important group, are corporate employees; in 1928 about \$7,000 million of the \$14,700 million income of the intermediate bour-

geoisie was derived from salaries, commissions, and directors' fees. Another \$788 million came from dividends and possibly \$1,000 million from speculative profits. This group, particularly those in the income class of \$5,000 to \$10,000, performs the "professional" function of management in corporate industry, because of the separation of ownership from management by monopoly capitalism and the multiplication of stockholders. It is directly dependent upon and is wholly identified with the interests of monopoly capitalism—the real "new" middle class. Most of the elements of the old middle class, the small producers, merchants, and professionals, are concentrated in the lower bourgeoisie. Their income gains were considerable; but they were accompanied by an intensification of competition and a pressure for jobs which created increasing class insecurity, now evident in the crisis which afflicts the small producers and storekeepers, the technicians and professional workers. For the growth of the middle class, identified with all the maturing elements of capitalist decline, was a final burst of splendor before the coming of darkness. Many middle-aged workers, thrown out of work by technological changes, took their petty savings and became small storekeepers, sharpening the struggle to survive. The automobile gave many the chance to become "independent" owners of garages and gasoline stations. Rationalization of industry gave work to many technicians, but also developed the conditions of eventual displacement. Much of the middle class growth, however, represents cancerous elements of social-economic parasitism, multiplying the burdens upon productive labor. The more parasitic occupations (advertising, merchandising, speculation, the law) fattened upon an inflated prosperity. *But the middle class grew faster than its economic opportunities.* The number of students in universities, colleges, and professional schools, all of them middle-class aspirants, grew from 521,754 in 1920 to 919,381 in 1928,<sup>15</sup> creating a constantly greater mass of actually and potentially unemployed and unemployable "intellectuals." They now swell the surplus population.

The "fixed productive share" of the farmers moved downward. In the "deflation" of 1921, their share of the national income fell disastrously; during the next four years a small part of the loss was painfully recovered, only to slump again in the peak years of prosperity 1926–29. The farmers increased their productivity over 30% and decreased only 25% as a proportion of the gainfully occupied, yet their share of the national income fell to one-half the pre-war share. The farmers' share (including food produced and consumed at home) was only 7.1% in 1928, although they were 15.6% of the gainfully



occupied. And the fall was *absolute*, affecting per-capita income. The farmers' share of the national income began to fall after the Civil War (defeat of the slave power was also an agrarian defeat, as it assured the supremacy of capitalist industrialism). The fall was temporarily reversed by rising prices after 1900, up to and including the World War; but it reasserted itself on a more devastating scale during 1921-29 and the 1930-34 depression. At the same time, the farmers' mortgage burden rose from \$7,857 million in 1920 to \$9,468 million in 1928, exclusive of over \$3,000 million of other debts. The burden was all the greater because of the fall in agricultural prices and income, and in the "value" of farms from \$71,791 million to \$58,141 million. As a business proposition, farming was almost a total loss; the rate of return on operators' net capital investment fell from 5.4% in 1919 to 3.7% in 1928, with only 1.6% as the average for 1920-28.<sup>16</sup> Non-farmer elements increased their tribute from agriculture; payment of interest to non-farmer mortgage holders practically trebled between 1909 and 1927.<sup>17</sup> The sharp drop in the farmers' share of the national income expressed the crisis and economic decline of agriculture. But this did not affect all groups alike. The inequality of agrarian incomes was augmented. A small upper layer of capitalist farmers was relatively prosperous. Owners of leased farms enlarged their share of agricultural income 60% between 1909 and 1927. "Retired" farmers drew an increasingly large real income from their \$1,000 million of farm mortgages.<sup>18</sup> The mass of farmers were, however, impoverished, expressed in the growth of tenancy from 38.1% in 1920 to 42.4% in 1930,<sup>19</sup> the largest increase in thirty years. By 1932 the farmers' gross income had fallen to 44% of the 1929 level;<sup>20</sup> the fall in net income was even greater. The result is a profound change in agrarian class relations; the poor farmers, the majority of tenants and small owners, are definitely thrust into the peasant class, while the position of the intermediate middle class farmers becomes continuously more precarious.\*

All through this period, while income was being "equalized" and "democratized," wages constituted a diminishing proportion of the national income. The wage-workers' share fell from more than 40% in 1920 to 37.4% in 1928. (Their share in the total national income was

\* Yet reformers urge "Back to the land!" as a cure for unemployment. Among the most miserable farmers are many who took that advice in the pre-war days. It is suggestive that what is now urged is "subsistence farms," that is, farms which are to yield a man and his family merely enough to keep from starvation. Other reformers, however, insist that "farm relief" depends upon the *displacement* of 2,000,000 more farmers!

still lower, only 34.3% in 1928.) Part of the decrease was due to the fact that, for the first time in American history, the number of workers increased only slightly as a ratio of the gainfully occupied, while the better-paid industrial workers decreased. And increasing unemployment cut into the workers' share. But the larger part of the decrease in the workers' share of the national income was due to the fact that wages did not move upward in line with productivity, production, and the national income, while the bourgeoisie appropriated constantly more of industry's proceeds as capital and capital claims were augmented. The majority of working class incomes were at or below the poverty line. In the "paradise" of the Ford automobile plants, the average *family* income of a worker in 1929 was only \$1,711 yearly! The family income of the majority was even smaller. Inequality of incomes within the working class was intensified, especially in the case of the skilled union trades and the unemployed. This inequality, along with craft and racial prejudices, helps to create and maintain divisions among the workers, which the employers exploit.

The concentration of income means poverty among the many and swollen incomes among the few; underconsumption among the masses and conspicuous overconsumption among the classes. It is urged that the national income, and this means essentially the existing productive equipment, is insufficient to abolish poverty. Thus Irving Fisher said in 1928: "If the share of the richest class were divided up to increase the share of the lowest income group, comprising nearly two-thirds of the population, it would not go far." Another economist agreed, and added: "A basic trouble is that, in spite of our unprecedented wealth, our national product is not yet large enough to supply anything but the barest essentials to everyone, even if it were equally divided."<sup>21</sup> That is much too simple, and evasive. For in 1929, a more equal distribution of the national income (inconceivable under capitalism) would not merely have wiped out the worst forms of poverty, it would have materially improved the living conditions of the masses as a whole. This was all the more possible if wasteful, useless goods and services had been replaced with more necessary things, and if the enormous excess capacity of industry had been utilized. The mere elimination of these social-economic wastes, inseparable aspects of the social relations of income inequality, would enormously increase *real* social income and mass welfare. All arguments to the contrary are mere repetitions of Pareto's "law" that welfare can be increased *only* by raising the national income—a justification of capitalist distribution. It is necessary, of course, to raise the total income. *But the unequal*

*distribution of income is interlocked with all the class-economic forces which prevent a full use of the existing and potential social forces of production: low wages, excess capacity, recurrent cyclical crises and breakdowns, limitation of technological progress, and the mass disemployment of the decline of capitalism.\**

Inequality of income is not merely an expression of capitalist exploitation and injustice. It is itself an economic force, expressing and aggravating all the maladjustments and disturbances of capitalist industry:

Disproportionate development of production and consumption: Unequal distribution of income is firmly based on the appropriation of surplus value and its realization as profit, the accumulation of capital. This means low wages and high profits, depressed mass purchasing power and consumption, the lag of consumption behind the growth of production.

The increase in capital and capital claims: While the increase in capital and capital claims augments the concentration of income, this in turn increases capital and capital claims, as surplus income must be invested, anywhere, anyhow.

Excess capacity: Unequal distribution of income depresses consuming income in favor of investment income. More of the proceeds of industry go into capital goods than into consumption, markets are relatively restricted, and excess capacity and competition are aggravated.

Surplus capital: As investment income grows more than consuming income, and capital and capital claims grow faster than production, a surplus capital arises, in spite of the constantly greater capital needs of industry. This surplus, whether used for unnecessary investment or

\* This sort of stuff still appears in textbooks used in many American universities: "If incomes were equalized, all would be poor. . . . The idle rich and other loafers are more conspicuous than numerous, and if they were all set to useful labor the total output of industry would not be substantially increased nor would the burden of toil of the rest of the people be much lightened. . . . A considerable part of the income of the rich is already being used directly or indirectly for the benefit of the poor in the form of huge donations to philanthropic, scientific and educational institutions, in the form of taxes, and in the form of savings which add to the industrial equipment of society and thereby increase the effectiveness of labor. . . . The possible gains to the poor from increasing the effectiveness of labor are infinitely greater than the possible direct gains from equal distribution of wealth and income." L. A. Rufener, *Price, Profit and Production: Principles of Economics* (1928), pp. 803-04. But why can't the "poor" own the industrial equipment? And why not add that the rich make work for the poor—don't they hire servants, spend millions on dress and jewels, on entertainments and debauchery, give work to the makers of yachts, Rolls-Royces, and private railroad cars?

for speculation, aggravates the maladjustments and disturbances of capitalist production.

Speculation: Itself partly a result of the concentration of income, speculation increases concentration and all its disturbing effects.

Increasing unemployment: As a result of all the preceding developments, unemployment tends constantly to grow. Millions of workers, who might be adding to the national income, are deprived of work and of the power to consume. This, in its form as mass disemployment in the epoch of the decline of capitalism, is bound up with more definite limitation of technological progress.

The export of capital and imperialism: Surplus incomes and capital, excess capacity and limitation of markets intensify the struggle for foreign markets to absorb surplus capital and goods. Itself interlocked with the concentration of income, imperialism augments concentration by making an increasingly larger part of the national income dependent upon the profits of foreign enterprises, which provides no work or income to "our own" workers.

Thus the concentration of income not only deprives the workers of a larger immediate share in income and consumption, it prevents a fuller development of production, income, and consumption in prosperity, and thrusts them downward in depression. For unequal distribution of income is the synthesis of all the forces of cyclical crisis and breakdown.\* Unequal distribution is dynamic, not stationary; its variations, within the limits of the long-time upward trend, correspond closely with the cyclical movement of prosperity and depression. As

\* "The theory [of Marx] rests on the supposition that wages are a fixed quantity, always near the minimum of subsistence; and further, that labor's proportion of the national income is ever decreasing. . . . Marx' theory is subject to two conditions: (1) that there are only two classes in existence, capitalists and proletariat; and (2) that wages are rigidly *fixed* and near the minimum of subsistence." L. V. Birck, "Theories of Overproduction," *Economic Journal*, March, 1927, pp. 22, 25. After setting up this man of straw, Prof. Birck cleverly demolishes it. But Marx never said that wages are *fixed* or that there is a *fixed* minimum of subsistence: that was the Rodbertus-Lassalle "iron law of wages," specifically repudiated by Marx. Wages may and do rise, under certain conditions; this is itself an aspect of the movement of capitalist contradictions and antagonisms. Wages tend toward a minimum of subsistence, but this is an historical category subject to change; the minimum rises in the epoch of the upswing of capitalism and falls in the epoch of decline. The workers' share of the national income does decrease; but this is not conditioned by fixed wages and minimum of subsistence, for while wages may rise, profits and capitalist income rise still more. Marx never said there are only two classes (he recognized the existence of landlords, of farmers, of the middle class); but industrialism dominates the class-economic relations of contemporary society, and industrialism is dominated by the relations between the proletariat and the capitalist class, whose antagonism shapes, in general, the movement of other classes.



prosperity moves upward, the concentration of income is augmented from three sources: more intensive production and realization of surplus value; speculative profits, which are both a redistribution of previously realized surplus value and a manufacture of new claims upon production; and the increasing "profits" of middle class services. Even if wages and mass purchasing power rise, they shrink relatively to the income gains of the bourgeoisie, to the mounting accumulation of capital and capital claims. Both investment and speculation aggravate old disproportions and create new ones. The moment comes when prosperity crashes. The tremendous increase, in 1927-29, in the incomes of the upper and intermediate bourgeoisie, while wages were nearly stationary and farmers' income moved downward, inexorably prepared the conditions of breakdown and depression.

Some bourgeois economists admit that cyclical fluctuations originate in "the adverse balance of consumption over production," in the "deficiency" of consumer income distributed by industry.<sup>22</sup> But they insist that the deficiency is not the result of appropriation of profits and concentration of income, that stability is possible without interfering with them. Yet, if industry does not distribute enough of its proceeds as consumer income, is it not because profits \* take more than wages? And if investment income increases more than consumption income, is it not because unequal distribution of income favors investors and speculators? The uses of profits are threefold:

1. Consumption income for the appropriators of profits, their tribute upon labor and production.
2. Investment income for the progressive expansion of production, a conversion of part of the proceeds of industry into "capital" equipment, which is necessary under any social system.
3. A surplus which becomes excessive investment and speculation, instead of consuming power.

Even the consumption of the appropriators of profits and their "necessary" investments create maladjustments and disturbances, for they are carried out haphazardly, without regard to the balanced needs of industry. (This is apparent, for one thing, in the constantly greater dependence of production upon luxury consumption.) The maladjustments and disturbances are enormously aggravated, however, by

\* In this connection, "profits" includes all forms of tribute levied upon labor—profits, interest, rent, "fancy" corporate salaries, excessive charges for professional services, etc. That part of professional income which represents services to workers is a withdrawal of labor consumption; if invested by the professional, it adds to the deficiency in consumption.



the surplus capital involved in excessive investment and speculation: it means an accumulating deficiency in consumption, expansion of production beyond the capacity of markets, and growing speculative violence. For a time, an unstable balance is maintained by a variety of means; but the balance is eventually upset, and crisis and depression ensue.

Unequal distribution of income is not, however, an independent factor. It expresses all the underlying relations of capitalist production. Hence the liberal economists are stressing secondary and not primary causes when they urge more equal distribution to prevent cyclical breakdowns. (This theory is identified with John A. Hobson; while his emphasis is wrong, his analysis is as suggestive as his earlier, the pioneer, study of imperialism.) For the social relations of capitalist production make an increasing concentration of income inevitable, because of the exploitation of labor and the multiplication of ownership claims. Ownership and exploitation are responsible, not only for income concentration, but also for its disastrous economic results. More equal distribution, under capitalism, could favor only the middle class, and would simply whet its appetite for ownership, investment, and speculation. Essentially the same result follows if income distribution favors the upper layers of the workers, who would save more for the "rainy day," the savings becoming "institutional" means for investment and speculation. It is necessary to change the social relations of capitalist production.\*

As the distribution of income is inseparably identified with the class-economic relations of capitalist production, it is profoundly affected by the decline of capitalism. The lower level of the national income makes more ruthless the efforts of those in economic and political power to get a larger share. Labor's share moves downward, because of lower wages and the millions of unemployed workers. Capitalist decline strengthens the tendency toward an increase in the most parasitic form of income, the interest on private and public debts. Corporate debt mounts as excess capacity and capital claims rise and production falls. Public debt mounts as government revenues fall and

\* Unequal distribution of income exists in the Soviet Union. But it is enormously smaller than in capitalist society; there is no concentration of income in the real sense. Moreover, what income inequality exists has no disastrous economic results, for there is no private ownership in the means of production, no capitalist investment and speculation: income cannot become private capital, a source of economic maladjustments and disturbances, and production is managed according to plan. While income inequality exists in the earlier stage of socialism, the drive is toward continual modification and its final abolition under communism.

expenditures to "revive" industry rise (and this includes greater expenditures on armaments because of sharpened imperialist rivalry). As imperialism grows, a larger part of capitalist income flows from foreign investment and exploitation; this means more income concentration, for after capital is exported its interest or profit yield creates no income for other classes of the "home" population. From 1900 to 1914, the concentration of income in Great Britain was increased by the income from accumulated overseas investments.<sup>23</sup> Concentration is also increased in the capital importing countries, for in crisis and decline the interest is paid by extorting more from the workers and peasants, in higher taxes and lower wages. And, unlike the experience in the epoch of capitalist upswing, labor's share of the national income now tends toward an absolute fall. This is particularly marked under fascism, which recognizes that incomes must be limited, thrusts the burden upon the masses, deprives them of the means of resistance, and cuts down on relief and the social services. The movement in the distribution of income becomes one of the most explosive elements of the decline of capitalism.

## The Multiplication of Stockholders

THE concentration of income has strong roots in the concentration of stock ownership, the most characteristic form of property in modern capitalist society. In the ballyhoo of Niraism, of state capitalism, there is nothing about "democratizing" corporate ownership and thus realizing "industrial democracy," a new social order. Yet this was the heart of the "economic revolution" proclaimed by the pre-1929 "new capitalism," and the only one of the older claims which does not reappear in the new ballyhoo. It was all very simple: corporate ownership was being democratized by the multiplication of stockholders; the stockholdings of large investors, of the capitalists, had decreased, were still decreasing, and would continue to decrease; in the redistribution of stock ownership the wage-workers, because of their increasingly higher wages and larger share of the national income, were the largest beneficiaries. Workers were becoming capitalists, the capitalists becoming workers. Consequently: "There is no doubt whatever that American labor is headed toward the control of American industry."<sup>1</sup> This was a prophecy made in 1926; *where* now are labor's stockholdings and control of industry?

The multiplication of stockholders is an indisputable fact. But it was, and is, grossly misunderstood and exaggerated. Thus, in 1929, the President's Committee on Recent Economic Changes stated that "the number of shareholders in the country's business enterprises has grown from about 2,000,000 to 17,000,000."<sup>2</sup> The statement implied *individual* stockholders, although the figures mean only *book* stockholders, whose names may appear scores of times in the lists of as many corporations. Book stockholders multiplied to a truly great extent, from 4,400,000 in 1900 to 18,000,000 in 1928. The greatest upward movement took place during and shortly after the World War; book stockholders increased an average of 12% yearly in 1917-20, 6.2% in 1920-23, and 4.5% in 1923-28.<sup>3</sup> The smallest rate of growth was in the period after 1923, when the prophets of the "new capitalism" were insisting that corporate ownership was being rapidly "democratized." And book stockholders multiply more rapidly than individual stockholders. If each of 3,000,000 small investors owns

one share of stock worth \$100 in various corporations, they figure as 3,000,000 book stockholders; if 100,000 large investors each owns \$300,000 worth of stock distributed over thirty corporations, they also figure as 3,000,000 book stockholders, although their total holdings are \$30,000 million as against the \$300 million of the other group. According to a statistician of the United States income-tax bureau, there were, in 1927, not more than 3,300,000 individual stockholders, who received dividends ranging from \$5 to \$15,000,000. The distribution was:

In the group with net incomes over \$5,000, there were 516,000 stockholders, who received \$3,762 million in dividends.

In the group with net incomes below \$5,000, there were 484,000 stockholders, who received \$493 million in dividends.

In the group of over 40,000,000 persons gainfully occupied, not filing income-tax reports, there were 2,300,000 stockholders, who received \$45,000,000 in dividends.<sup>4</sup>

By 1928, the number of stockholders had probably grown to 3,750,000, compared with 1,250,000 in 1900. This was a substantial increase, but its significance was more absolute than relative. For the increase in stockholders, corresponding with that in corporate enterprise, was not much larger than the increase in the number of persons gainfully occupied, and was smaller than the increase in production and corporate wealth. Thus the multiplication of stockholders does *not* mean more "democratic" ownership of industry. Its real meaning lies in the important class-economic changes in capitalist production, in the development from small-scale to large-scale industry and from the older capitalism to monopoly. The multiplication of stockholders is interlocked both with the upswing and the decline of capitalism.

Capitalist production moves inexorably toward large-scale industry, with capital needs beyond the resources of individual capitalists. Corporations become increasingly ascendant, combining small scattered capitals into one enterprise. Small corporations merge into larger, and these merge into monopolist combinations, which use the capital resources of multitudes of stockholders. Ownership, management, and control are separated. This is a fundamental change in the forms of capitalist property, once wholly individual: impersonal, corporate property becomes dominant. According to one bourgeois economist:

"Most fundamental of all, the position of ownership has changed from that of an active to that of a passive agent. In place of actual physical properties over which the owner could exercise direction and for which he was responsible, the owner now holds a piece of paper

representing a set of rights and expectations with respect to an enterprise. . . . He bears no responsibility for the enterprise or its physical property. It has often been said that the owner of a horse is responsible. If the horse lives he must feed it. If the horse dies he must bury it. No such responsibility attaches to a share of stock. . . . The value of an individual's wealth is coming to depend on forces outside himself and his own efforts. Instead, its value is determined on the one hand by the actions of the individuals in command of the enterprise—individuals over whom the typical owner has no control; and on the other hand, by the actions of others in a sensitive and often capricious market.”<sup>5</sup>

The implications, which the economist does *not* draw, are clear: capitalist property is no longer private property in the full sense of the term; it is *social* property, expressing an objective socialization of production, while ownership rights and claims remain individual. Thus modern capitalist property is wholly parasitic. The antagonism between *social* property and *individual* appropriation aggravates all the maladjustments and disturbances of capitalist production. It also conditions, in its class-economic aspects, the possibility of and the struggle for a new social order.\*. . .

The multiplication of stockholders, because of the transformation of

\* Corporate property involves: “An enormous expansion of the scale of production and enterprises, which were impossible for individual capitals. . . . Capital, which rests on a socialized mode of production and presupposes a social concentration of means of production and labor powers, is here directly endowed with the form of social capital as distinguished from private capital, and its enterprises assume the form of social enterprises as distinguished from individual enterprises. It is the abolition of capital as private property within the boundaries of capitalist production itself. Transformation of the actually functioning capitalist into a mere manager, an administrator of other people's capital, and of the owners of capital into mere owners, mere money capitalists. . . . Total profit is henceforth received only in the form of interest, that is, in the form of mere compensation of the ownership of capital, which is now separated from its function in the actual process of production, in the same way in which this function, in the person of the manager, is separated from the ownership of capital. The profit now presents itself as a mere appropriation of the surplus labor of others, arising from the transformation of means of production into capital, that is, from its alienation from its actual producers, from its antagonism as another's property opposed to the individuals actually at work in production, from the manager down to the laborer. . . . The function of management is separated from the ownership of capital, and labor, of course, is entirely separated from the ownership of means of production and surplus labor. This result of the highest development of capitalist production is a necessary transition to the reconversion of capital into the property of the producers, no longer as the private property of individual producers, but as common property, as social property outright.” Karl Marx, *Capital*, v. III, pp. 516–17.



individual productive property into corporate property, is a characteristic expression of the upswing of capitalism. Independent capitalists, where they are not totally wiped out, become stockholders in the corporations which absorb their enterprises. Individuals who formerly might have been independent enterprisers become, under the new conditions, officers or supervisory and technical employees of corporations, in which they may acquire stock. The number of these employees is greatly augmented by monopoly capitalism. Another source of stockholders are the merchandising and advertising employees and professional workers, and all sorts of other middle class elements which have money to invest. Underlying these developments was the upward movement in production, the increasing accumulation of capital, and the multiplication of capital claims, making possible more widespread ownership of stock.

This multiplication of stockholders is also identified with large-scale industry's increasingly greater capital requirements, not only absolute but relative, as capital investment rises more than production and profits. The fall in the rate of profit augments the investment of capital, and there is a drive to get capital anywhere, anyhow (including the small savings of workers, in the form of institutional investment). One aspect of the growth of monopoly is the "recapitalization" of corporate combinations, which is successful only if their stock is absorbed by a multitude of stockholders. At the same time, efforts to overcome the fall in the rate of profit involve the plundering of stockholders. There is a great turnover among small stockholders. Large corporations augment their profits at the expense of the smaller. Small stockholders are plundered by promoters and financial capitalists, who unload securities upon the gullibles and expropriate small investors in corporate reorganizations. A large part of the profits of holding companies come from plundering the stockholders of underlying corporations. The pressure of surplus capital results in the organization of many fly-by-night concerns, and more stockholders. Finally, the high-pressure salesmanship of investment bankers and brokers swells the stockholding multitudes.

These developments do not, however, break down the monopoly of ownership. For corporate ownership is concentrated in the upper bourgeoisie. But the character of this class changes. It is now composed primarily of financial capitalists, whose resources are invested in scores of enterprises, none of which they own but all of which they control. Their capital, unlike that of the industrial capitalist, is not bound up directly with production; a mass of paper rights and claims upon

production and income, it migrates from enterprise to enterprise, in line with business conditions, the prospects of profit, and the needs of speculation. The Rockefeller interests, originally associated wholly with Standard Oil, came to include hundreds of industrial, utility, and financial corporations throughout the world. But though the financial capitalists seldom own any large part of a corporation's stock, they control its destiny, while management is the function of hired employees: the more stockholders there are in an enterprise, the more ownership is separated from control, the easier it is for a minority to usurp control. And this control by a financial clique ruthlessly tramples upon both the stockholders and rival minority cliques. This was an early accompaniment of the growth of large corporations. A classic illustration was the meeting, in 1902, of the stockholders of the Metropolitan Street Railway Company of New York City. The chairman of the meeting was P. A. B. Widener, millionaire capitalist, director in the United States Steel Corporation and other affiliated enterprises of the House of Morgan. The meeting went on in this manner:

WIDENER: The tellers will now take the vote.

STOCKHOLDER: We wish a discussion of the matter. Let us discuss it before we vote for it.

WIDENER: Well, you can vote for it and discuss it afterward.

STOCKHOLDER [*amazed, incredulously*]: Do you mean to say that we must vote and then discuss?

ANOTHER STOCKHOLDER: You wish us to be executed first, then tried, is that it? We object to voting before discussion.

WIDENER [*bored, smilingly*]: Well, sir, you may withhold your vote until after the discussion. The Chair orders that the vote shall be taken. [*It is.*]

These methods have not changed in essentials; they are merely more formal, more labyrinthine, smeared with the holy oil of "service." In fact, stockholders to-day are even more helpless, because of their increasing numbers, the greater size of corporations, and greater use of holding company devices. The financial oligarchy has tightened its control. And this oligarchy is merely interested in the production of profits and speculation, in the plunder of corporations and their stockholders, including stockholders of the upper bourgeoisie itself; for in this the oligarchy knows no class brothers or sisters. Thus it increases its share of profits, of the surplus value produced by labor, in spite of the tendency of the rate of profit to fall. The separation of management and control by the multiplication of stockholders, arising out of the progressive socialization of production, the transformation of

individual property into social corporate property, becomes a means for the intensification of capitalist plunder and capitalist disorganization. . . .

There was no decrease in the stockholdings of the upper bourgeoisie (Table III). On the contrary, dividends received by incomes of \$10,000

TABLE III

*Distribution of Dividends by Income Groups, 1917-29*

YEAR	\$3,000 to \$5,000		\$5,000 to \$10,000		\$10,000 Up	
	AMOUNT (millions)	PER- CENT	AMOUNT (millions)	PER- CENT	AMOUNT (millions)	PER- CENT
1917	\$128	*	\$230	*	\$1,570	*
1919	198	*	322	*	1,800	*
1921	230	*	349	*	1,565	*
1922	227	8.6	356	13.5	1,818	69.0
1923	421	12.8	346	10.5	2,095	63.6
1924	380	11.1	292	8.5	2,325	67.9
1925	*	*	321	8.0	2,724	67.9
1926	*	*	435	9.8	3,146	71.0
1927	*	*	430	9.0	3,331	70.0
1928	*	*	438	8.5	3,571	69.3
1929	*	*	506	8.8	3,740	64.9

\* Not available. Total dividend payments by corporations were not compiled for 1917-21. Income-tax changes in 1925 substantially reduced the number of individuals required to report in the brackets below \$5,000.

Percentages are based on total dividend payments less intercorporate dividends.

Source: Computed from Bureau of Internal Revenue, *Statistics of Income* for the respective years.

up were 140% higher in 1929 than in 1917; the slight falling tendency in the early post-war years was reversed after 1921. At the same time the upper bourgeoisie, especially the rentiers in this class, invested heavily in tax-exempt government bonds, amounting to \$5,373 million in 1929,<sup>6</sup> in addition to more millions invested in foreign securities. Statistically, however, the share in dividends of the upper bourgeoisie was a trifle smaller than in the pre-war years. But this was only apparent, not real. For the dividends reported by incomes of \$10,000 up is not the total they receive; they are underreported to evade the surtax. Stockholdings are distributed among other members of the family, in the form of gifts, the creation of trusts, or partnerships. (These partnerships, although clearly a tax-dodging device, have been declared legal by the courts.) This part of the dividends of incomes of \$10,000 up are reported in the lower brackets. According to a statistician of the

income-tax bureau, there were, in 1924, in the income groups below \$2,500, 200,000 stockholders who received dividends either from inheritances or trusts.<sup>7</sup> Another tax-dodging device is the personal holding or investment company (one banker maintained six such companies!),<sup>8</sup> which receives dividends, reinvests them, and avoids the surtax. Such dividends appear as part of intercorporate dividends, but are really received by the upper bourgeoisie. Increasing tax-dodging created a fictitious relative decrease in the dividends and stockholdings of the upper bourgeoisie.

There were fluctuations in the share of dividends received by the intermediate and upper bourgeoisie, mainly because of temporary shifts in income from one class to the other. But the movement was definitely upward, if for no other reason than because these two classes increased numerically more than the total of gainfully occupied persons. The most significant gains, from a class angle, were scored by the intermediate bourgeoisie, especially those with incomes of \$5,000 to \$10,000. This is because the most important part of this class is composed of officers and managerial employees in corporate industry; they steadily augment their ownership of stock (often received as a bonus) in the corporations which employ them, and are encouraged to do so by their financial masters to make them more "loyal." In the middle class as a whole, stockholdings were increased by employee stock ownership, by the drive of public utilities to sell stock to customers (to create "reserves" of public opinion against immediate government regulation and possible government ownership), by the stimulation of get-rich-quick appetites.

The workers made some small gains in stock ownership, but they were absolute, not relative. And their share was insignificant: corporate ownership is a monopoly of the bourgeoisie (Table IV). The working class, wage and clerical, while 68.5% of the gainfully occupied, owned only \$750 million of corporate stock, an insignificant stake of 1.2%. The bourgeoisie, only 15.9% of the gainfully occupied, owned \$61,137 million, a monopoly stake in corporate ownership of 97.8%. Of this, the largest share was owned by the upper bourgeoisie, 0.8% of the gainfully occupied: \$48,322 million, or 77.3%. That is, however, a minimum; their real share was at least 80%. For a part of the dividends received by the lower income brackets appear there only because of the tax-dodging devices of the upper bourgeoisie; another part was reported by individuals with gross incomes over \$5,000, but no net income; and a third part is credited to intercorporate dividends, because of the use of personal investment companies. The share of the lower

TABLE IV

*Class Distribution of Corporate Ownership, 1928*

CLASS	NUMBER IN CLASS	STOCKHOLDERS IN CLASS	STOCK OWNED (millions)	PER- CENT
Working Class:				
Wage-Workers	27,750,000	600,000	\$438	0.7
Clerical	4,750,000	400,000	312	0.5
Farmers	7,400,000	600,000	625	1.0
Bourgeoisie:				
Lower	4,300,000	1,000,000	2,188	3.5
Intermediate	2,880,000	825,000	10,627	17.0
Upper	382,241	325,000	48,322	77.3
Total	47,462,241	3,750,000	\$62,512	100.0

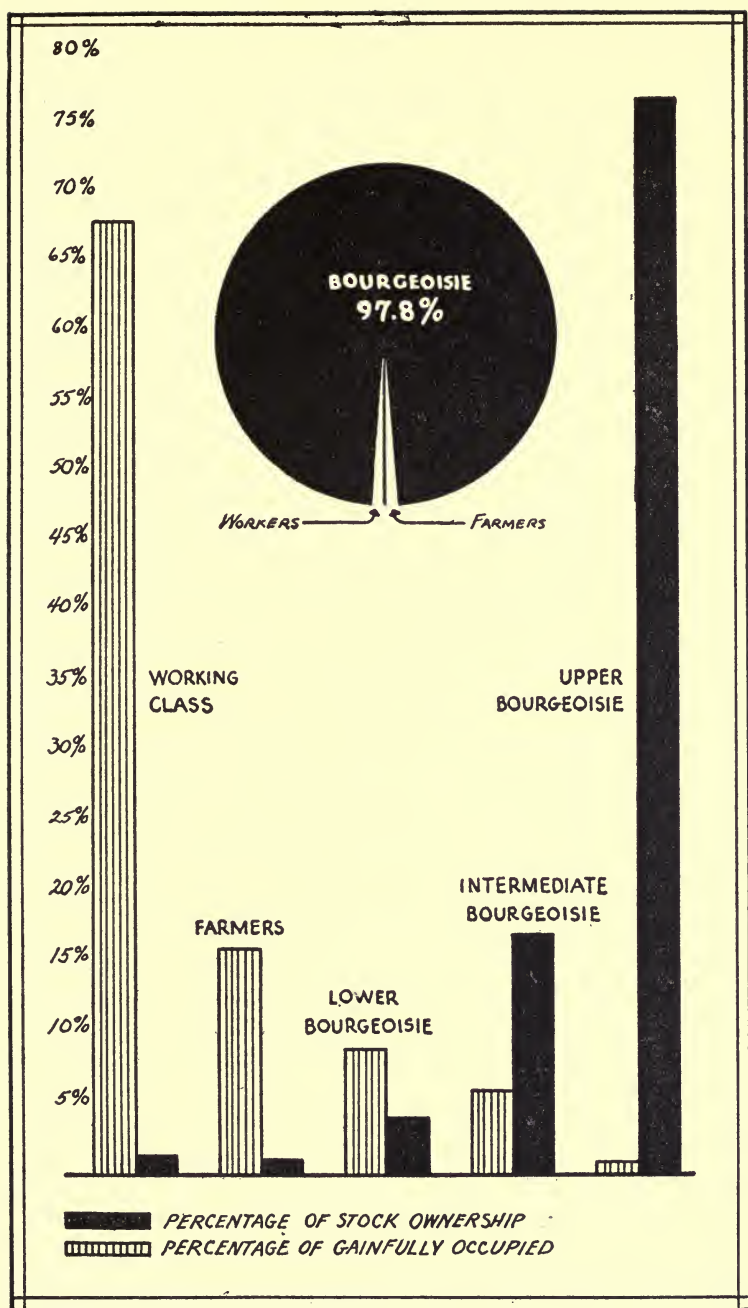
Source and methods of computation: In 1928, corporations disbursed \$7,073 million in dividends, of which \$1,916 million were intercorporate dividend payments. Among the 4,070,851 income-taxpayers there were 791,579 stockholders, who received a total of \$4,350 million in dividends, distributed as follows: incomes below \$5,000, \$341 million; incomes of \$5,000 to \$10,000, \$438 million; incomes of \$10,000 up, \$3,571 million. (*Statistics of Income*, 1928, pp. 11-12.) The balance of \$807 million was received by non-income-taxpayers, non-profit institutions, and foreign stockholders. Non-profit institutions (endowments, foundations, churches) greatly increased their stockholdings after the World War. Foreign holdings in American corporations, which, in 1912, constituted 9% of the stock of representative corporations, and were nearly wiped out in 1915-20, became again important; in 1922, foreigners owned 1.5% of common and 2.5% of preferred stock. (*New York Times*, January 5, 1913; Federal Trade Commission, *National Wealth and Income*, p. 156.) These holdings rose after 1922, because of American prosperity and European economic decline. It is assumed that non-profit institutions and foreign stockholders received \$450 million in dividends. Another deduction must be made: individuals with gross incomes over \$5,000 but no net income received, in 1928, \$88,000,000 in dividends, which do not appear in the income-tax total. That leaves approximately \$269 million received by individuals not filing income-tax reports. All incomes below \$5,000 received approximately \$610 million in dividends; of this amount, probably \$350 million went to stockholders with incomes of \$3,000 to \$5,000, who are not wage or clerical workers. Of the \$260 million in dividends received by incomes below \$3,000, not all of whom are workers, the probable distribution was: wage-workers, \$30,000,000; clerical workers, \$25,000,000; farmers, among whom there was a prosperous upper layer, \$45,000,000; lower bourgeoisie, \$160,000,000. Of the dividends received by incomes of \$3,000 up, \$788 million went to stockholders with incomes of \$3,000 to \$10,000, and \$3,571 million to stockholders with incomes of \$10,000 up, the upper bourgeoisie. The total of the upper bourgeoisie is underestimated, because of underreporting and the tax-dodging devices of trusts, partnerships, and personal investment companies. Stock owned is secured by applying percentage of dividends to total stock owned by individuals.



and, particularly, the intermediate bourgeoisie was substantial. It was the middle class which scored real gains, not the workers; and this was admitted by one bourgeois writer in an unguarded moment: "Labor makes an absolute, not a relative gain in corporate ownership. What we really have is a vast middle class rather than a proletarian movement."<sup>9</sup>

Employee stock ownership was also essentially a middle class movement, in spite of some of its specific labor aspects. Two claims were made: that employee stock ownership is peculiarly American, and that it favors the workers. Both claims were false. Employee stock ownership exists in all highly industrial nations. In England, where the movement started and employee stockholdings were relatively as large, if not larger, than in the United States, 503,400 stockholders, many of them employees, owned stock in eighteen corporations; in one chemical concern, employees owned 643,000 shares, 5% of the total.<sup>10</sup> Owen D. Young, chairman of the Board of the General Electric Company, an affiliate of the House of Morgan, said this of employee stock ownership: "Labor will be the employer and capital will be the commodity."<sup>11</sup> But not only were employee stockholdings very limited, they were *concentrated in managerial and supervisory employees and a small upper layer of highly skilled workers*.

Employee stock ownership was limited, both in value and in scope. In 1928, 1,000,000 employees owned not much more than \$1,000 million in stock, or 1.6% of all stock owned by individuals. Not more than 400 out of 450,000 active corporations promoted employee ownership, which was most general in the larger, monopolist combinations. Nearly one-half of all employee stockholdings were in twenty-four corporations; the amount was \$426 million, or 5% of the total stock. In thirteen of the largest corporations, employee ownership averaged only 4%. While in some companies fairly large numbers of employees owned stock, that was exceptional; the average of participants was below 15% of the total number of employees. Not only was participation concentrated in a small group of employees; concentration of ownership existed within the employee stockholders, one-third of whom owned one-half of all employee stock.<sup>12</sup> Nor was there any development toward employee control. Employee stock ownership plans usually make no provision for employee stockholder representation; in a few corporations, meetings of employee stockholders were held and they elected a member of the board of directors, but this was extremely rare. And employee stockholders, a small minority, have even less say



XIV. CLASS DISTRIBUTION OF STOCK OWNERSHIP—1928.

in corporate affairs than the majority absentee stockholders; control is vested in the officers and their masters, the financial oligarchy.

Small as employee stock ownership was, it was still smaller in terms of working class participation. Employees comprise all individuals working for a corporation other than officers and directors. Stock ownership was concentrated among the non-worker employees—the managerial, supervisory, and selling staffs. This is confirmed by the National Industrial Conference Board: “It is clear that corporate stock ownership by employees up to the present has been, for the most part, an ownership by the superior employees.”<sup>13</sup> General Motors, with few stockholders among the mass of its employees, organized in 1923 a Managers Securities Company, whose shareholders were exclusively the higher employees; the company’s ownership of stock, on which General Motors paid “bonus” dividends, created 100 millionaires.<sup>14</sup> Such plans, according to the *Journal of Commerce*, “hold out the possibility of arousing cooperative efforts in a way that may, under favorable conditions, be superior to any other.”<sup>15</sup> Thus, from its most important angle, employee stock ownership is a means of making management “more loyal” by enlarging its stake in a particular corporation; it is also, by the same token, a means of domination over labor.

Where employee stock ownership includes workers, it is an aspect of the struggle against labor, waged by management and its financial overlords. In general, the corporations with employee ownership plans are the ones most bitterly opposed to trade unions (United States Steel, Standard Oil, General Motors, Goodyear Tire and Rubber); where unions do exist, as in the case of the Pennsylvania Railroad, management wages an open or surreptitious war against unionism. Employee stock ownership is interlocked with company unions, spy systems, and “welfare” schemes, all aimed to prevent unionism and independent action by the workers. This purpose was clearly evident in the earliest exponents of the movement. An American economist, Nicholas Paine Gilman, said in 1889: “When this privilege [stock ownership] is accorded by a prosperous firm, the workmen generally show themselves eager to become capitalists on a small scale, and they indulge thereafter in very little denunciation of the class which they have entered.” (Gilman claimed that employee ownership “tends to make the establishment a purely cooperative one in time.”<sup>16</sup> Where, forty-five years later, are these “cooperative establishments”?) And the same idea of “moderating” labor discontent was expressed, in 1926, in the theory that employee stock ownership develops, against the independence and insurgency of unionism, a group of workers who are

"better satisfied, more efficient and dependable; are not primarily reformers, belong to the non-insurgent type, have no essential quarrel with corporations and employers as such, nor with the industrial system as such."<sup>17</sup>

The upsurge of labor militancy in the strikes of 1877 led the employers to consider the problem of "harmony" between labor and capital. It aroused new interest in profit-sharing, and it gave birth to the idea of employee stock ownership. The idea was thus formulated, in 1878, by Abram S. Hewitt,\* millionaire iron and steel capitalist, who became a director of the United States Steel Corporation upon its formation in 1901:

"The harmony of capital and labor will be brought about by joint ownership in the instruments of production, and what are called 'trusts' merely afford the machinery by which such ownership can be distributed among the workmen. . . . By abstinence, which is the parent of capital, the workmen can acquire sufficient wealth so that in a generation the whole capital invested in industrial undertakings might be transferred to the wage-earning class."<sup>18</sup>

In a generation! . . .

Harmony between labor and capital was also the purpose of profit-sharing. But it was an expression of small-scale industry, where larger output could be secured by stimulating the interest of the individual worker: the "father" of profit-sharing was a French employer of painters, of craftsmen. Where larger output depends primarily upon the machine and not the worker, the scope of profit-sharing is limited. This was recognized, in 1889, by Gilman, himself an advocate of profit-sharing:

"A matter of first importance, however, is the nature of the occupation in which the system of profit-sharing is applied. Theory and experience harmonize here in declaring that if the employee is to create an extra fund of profits, which shall at least provide his bonus, the business must be such that increased industry, skill, care, or economy will *tell* upon the result. . . . The manufacture of cotton and woollen goods will occur as being a comparatively unpromising field for this

\*Hewitt, who might be called the "father" of employee stock ownership, and who influenced its adoption (along with other "welfare" practices) by the United States Steel Corporation, encouraged the crushing of the steel workers' strike in 1901, and urged "stern repression" of the coal miners' strike in 1902. He was an enthusiastic exponent of philanthropy, to which he gave a conscious class purpose. "The rich," said Hewitt, "in contributing are but *building for their own protection*. If they neglect so to build, barbarism, anarchy, and plunder will be the inevitable result." See *New York Times*, November 26, 1900; August 26, 1902.



new system. The value of the plant is great, the working capital is large, machinery plays the chief part, and much of the labor employed is unskilled, save in a very narrow line. The market is variable, and the balance sheet is determined more by the skill of the management than by the quality of the manual labor employed."<sup>19</sup>

Hence many employers in England and the United States adopted the plan of paying "shared" profits in company stock. Eventually profit-sharing was abandoned in favor of selling stock to employees. It was both more effective and cost little. Employee ownership is intended primarily for the managerial and supervisory personnel, where profit-sharing was primarily for workers. But there is still the problem of making workers more "efficient," "dependable," and "loyal." While the tempo of efficiency for the mass of workers is set by the machinery and apparatus in use, the "key" workers must be considered. Moreover, excessive labor turnover is bad for efficiency, while strikes are fatal to the yield of profits on the masses of capital in modern industry. Capitalist industry resorts to employee stock ownership for the "key" workers and "welfare" for the mass of workers.

Stock ownership for "key" workers is involved with a neglected aspect of scientific management: the insistence of Taylorism, not wholly a matter of "time and motion," that a definite proportion of workers must be put "on the side of management." In Taylor's own words: "The work which under the old type of management practically all was done by the workmen, under the new is divided into two great divisions, and one of these divisions is deliberately handed over to those on management's side. . . . A machine shop, which, for instance, is doing an intricate business, will have one man on management's side to every three workmen."<sup>20</sup> From a slightly different angle, the same idea was urged by another efficiency engineer, H. L. Gantt: "The [theory] is coming to be discredited that in order to get low costs the expense of the supervising force must be small compared to that of those who are actually performing the physical labor. . . . The increasing productivity of our automatic machinery requires little direct labor, but quite a good deal of supervision."<sup>21</sup> Industry's supervisory employees were greatly augmented. While wage-workers in manufactures, transportation, and mining rose from 9,982,000 in 1910 to 12,757,000 in 1920, supervisory employees rose much more, from 495,169 to 823,513.<sup>22</sup> This change in the organization of labor was accelerated, after 1920, by more intensive automatization and rationalization. Supervisory employees, including "key" workers, are



represented among employee stockholders. So, also, is a small group of the older and better-paid workers.

For the mass of workers there is the cruder "welfare" work, company unions, and other measures, which involve a brutal mixture of calculated benevolence, espionage, and terrorism to prevent unionism and strikes, to maintain "loyalty." (According to one estimate, the costs, in 1927, of the welfare work of 514 corporations was only 1% of the payrolls.<sup>23</sup> The costs of strikes are infinitely greater.) Thus capitalism attempts to strengthen its dictatorship over labor. For welfare work is itself a form of struggle against the workers. . . .

The functional distribution of stock ownership is in line, of course, with the exploiting relations of capitalist production. It was roughly as follows in 1929:

Absentee stockholders, 87%.

Officers and directors, 11.5%.\*

Managerial and merchandising employees and employees "on the side of management" (supervisory employees, "key" workers), 1%.†

Mass of workers, 0.5%.

The "new" liberals, like the old, insist on stressing the "constructive" aspects of capitalist development, not their class significance, contradictions, and antagonisms. Clearly large-scale industry, the multiplication of stockholders, and the separation of ownership and management arise out of the constructive, objective socialization of production. This, the historical function of capitalism, is the basis of socialism. But the socialization of production, itself a negation of private property and the capitalist relations of production, means both the possibility of new progress and a reaction against progress. For, while the older social-economic relations persist, it means more exploitation of labor (and the farmers), monopoly capitalism, imperialism, economic decline, mass disemployment, and war. But these conditions the "new" liberals overlook, or else consider them "independent" categories, not understanding the dialectical unity of capitalist development. So they stress the "constructive" aspect of the separation of ownership and management: the appearance of an "independent" class of management. This class is to introduce a "new spirit" in industry, compact of devotion to the interests of employees and consumers, disregarding

\* The Federal Trade Commission estimated in 1922 that officers and directors owned 10.7% of the common stock and 5.8% of the preferred in the corporations employing them. Federal Trade Commission, *National Wealth and Income*, p. 159.

† The total ownership of stock by higher employees, officers, and directors is, of course, much greater, for they may own stock in other corporations. But that is an *absentee*, not an employee ownership.

the rights of property and stockholders. The idea has thus been formulated by Prof. Sumner H. Slichter, a "new" liberal and an institutional economist, who is entangled in all the contradictions of the "older" and the "newer" economics:

"The voice of property owners in the control of industry seems to be diminishing . . . through the growth of state intervention, of trade unionism, and, probably most important of all, of professional management which is more or less independent of control by investors. . . . Mere private ownership of capital . . . is not capitalism. Capitalism is the control of policies by private property owners. . . . To the tendency of management to become independent of ownership there is no check in sight. It may be objected that the shift in power from owners to managers represents no real change in the control of industry, that professional managers are guided essentially by the same pecuniary standards which business owners accept. This, however, is true in part only, because professional management develops standards of its own to which it tends to adhere even in violation of investors. By influencing these professional standards, the public has an excellent opportunity to affect the conduct of industry."<sup>24</sup>

This is simple, all too simple.

State intervention is in the interest of the capitalist class. It ends in fascism, a reaction against all progressive forces.

Trade unionism, unless it moves toward larger revolutionary objectives, is increasingly subordinated by state capitalism and finally suppressed by fascism.

These two forces do not move "smoothly" toward a "new" social order. They move, in the epoch of capitalist decline, toward an explosion of class-economic contradictions and antagonisms: revolution or reaction.

The merely functional, not class, analysis of management is insufficient. From the functional angle, "professional management" is a progressive development, an expression of the socialization of production, one of the elements of socialism. From the class angle, professional management is thwarted to serve property interests; it is a hiring of the financial oligarchy. Slichter himself says: "They [professional managers] are not free men. They are not neutral, hired to serve all interests alike. They are employed by stockholders to promote the interests of stockholders." But still: "They must be neutrals—equally the servants of the owners of capital, wage-earners, and consumers."<sup>25</sup> The eternal simplicity of the "new" liberals! Always they indulge in wish-fulfillments, to evade the need of struggle. Higher

wages, social legislation, protection of the consumer, employee stock ownership, all the older reforms, and the newer: they are still urged, while capitalist decline and reaction prepare to annihilate all reform.

For the separation of ownership and management does not mean that capitalism is "not capitalism" any more, in the sense of any basic change in class relations. It simply separates the functions of exploitation and management, formerly combined in the lordly person of the capitalist himself, now become an absentee or financial capitalist. Feudalism was still feudalism when the nobility became a class of absentee landlords and courtiers, while management was made a function of underlings. Feudalism was not transformed by the "professional spirit" and "independent standards" of the nobility's managerial employees; it was undermined by social-economic development and overthrown by the revolutionary class struggle of the bourgeoisie.

A ruling class, when it comes to power, combines constructive and exploiting functions. The bourgeoisie was not merely an exploiter of the workers. It performed the historical task of overthrowing feudalism, and it organized a new, more progressive mode of production. The early industrial capitalist combined the functions of ownership and management, of exploitation and labor. Now, however, the industrial capitalist is an anachronism, and nowhere more so than in the United States, where large-scale industry and the multiplication of stockholders are most highly developed. Stockholders own, but they do not manage. Management does not own, but it manages as employees. The financial capitalists are merely exploiters; they control, and have a monopoly share in ownership, but they perform no useful social function. Thus ownership becomes more wholly parasitic, control more wholly predatory. A new social order thunders at the gates of history.

Neither management nor stockholders control industry; control is usurped by the financial oligarchy and its institutional mechanism, the great banks. Of whom is management composed? It is under control of the higher administrative officers and directors, many of them major or minor financial capitalists, most of them plundering their corporations, and all of them dependent upon the financial oligarchy. Upon them the real management, the lower officers and managerial and supervisory employees, is dependent. This dependence, moreover, is not only objective; for the ideology and practices of management are still dominated by the social relations of capitalist production. Nor is management independent of the stockholders; its most important elements are themselves stockholders. From a functional angle,

except in so far as its work is simply to increase profits by exploitation both of the workers and of commercial opportunities, professional management is a step toward socialism; it develops the arts and some of the relations of the socialist economic order. From a class angle, management is to-day partly a privileged caste, beneficiaries in varying measure of the subjection and exploitation of the workers. (The lower layers are, however, increasingly exploited, particularly under the conditions of capitalist decline; they are possible allies of the workers.) It is management which uses all means in its power—company unions, espionage, blacklists, “yellow dog” contracts, violence—to suppress the workers; management, not its financial masters, is on the firing line in the minor civil wars of strikes.

The significance of hired managers is not a discovery of the “new” liberals. It was observed by the bourgeois economist, Ure, in the 1830’s. On this subject, Marx wrote:

“The labor of superintendence and management will naturally be required whenever the direct process of production assumes the form of a combined social process, and does not rest on the isolated labor of independent producers. It has, however, a double nature. On the one side, all labors, in which many individuals cooperate, necessarily require for the connection and unity of the process one commanding will, and this performs a function, which does not refer to fragmentary operations, but to the combined labor of the workshop, in the same way as does that of a director of an orchestra. This is a kind of productive labor, which must be performed in every mode of production requiring a combination of labors. On the other side, quite apart from any commercial department, this labor of superintendence necessarily arises in all modes of production which are based on the antagonism between the worker as a direct producer and the owner of the means of production. To the extent that this antagonism becomes pronounced, the rôle played by superintendence increases in importance. Hence it reaches its maximum in the slave system. But it is indispensable also under the capitalist mode of production, since the process of production is at the same time the process by which the capitalist consumes the labor power of the laborer. In like manner, the labor of superintendence and universal interference by the government in despotic states comprises both the performance of the common operations arising from the nature of all communities, and the specific function arising from the antagonism between the government and the mass of the people. . . . The labor of superintendence and management arising out of the antagonistic character and rule of capital over labor, which



all modes of production based on class antagonisms have in common with the capitalist mode, is directly and inseparably connected, also under the capitalist system, with those productive functions which all combined social labor assigns to individuals as their special tasks. The wages of an *epitropos*, or *régisseur*, as he used to be called in feudal France, are entirely differentiated from the profit and assume the form of wages for skilled labor. . . . That not the industrial capitalist but the industrial managers are 'the soul of our industrial system,' has already been remarked by Ure. . . . To the extent that the labor of the capitalist is not the purely capitalist one arising from the process of production and ceasing with capital itself, that it is not limited to the function of exploiting the labor of others, that it rather arises from the social form of the labor process as a combination and cooperation of many for the purpose of bringing about a common result, to that extent it is just as independent of capital as that form itself, as soon as it has burst its capitalist shell. . . . Compared to the money [financial] capitalist the industrial capitalist is a worker, but a working capitalist, an exploiter of the labor of others. . . . The wages of superintendence appear completely separated from the profits of enterprise in the cooperative workshops as well as in capitalist stock companies. . . . Stock companies in general have a tendency to separate this labor of management as a function more and more from the ownership of capital. Only the functionary remains and the capitalist disappears from the process of production as a superfluous person." <sup>26</sup>

Once the capitalist combined the functions of exploitation and management; in his typical modern form, he merely exploits. But management still performs both the function of managing and exploiting. They can be separated, however, as they were separated in the person of the capitalist. Where, however, economic development was enough in the one case, in the other a revolutionary social transformation is necessary. In the Soviet Union the capitalist was annihilated and management was deprived of its exploiting aspects. Management is now wholly a *functional* task, merely a form of productive social labor. . . .

The multiplication of stockholders, and the separation of ownership, management, and control, are identified with increasing economic instability and the decline of capitalism. Concentration of the ownership of stock, of wealth and income, provides the sinews of speculation. Because of control by the financial oligarchy, corporate industry becomes increasingly irresponsible, adventurous, speculative, and unstable. Capitalism is no longer capitalism in the old sense, it is



rotten-ripe for change; but capitalist relations persist, thwart and resist social change, react against progress, and produce economic decline, new maladjustments and disturbances.\* Yet these sinister conditions arise out of essentially progressive developments capable of becoming the basis of a new social order, in which man, the worker, masters society, nature, and himself.

\* Depression wipes out most of the holdings of small stockholders. Where they are trying to get a job or slightly raise their wages, with the lower living standards and mass disemployment of capitalist decline, workers are not likely to aspire to become stockholders. Hence the ballyhoo of state capitalism does not include the idea of realizing "industrial democracy" by making the workers stockholders and capitalists!

## Class Distribution of Wealth

**N**IRAISM claims that its program means the redistribution and "more democratic" ownership of wealth. That is also the claim of state capitalism in Europe, and of fascism. Meanwhile the concentration of wealth is being augmented; only poverty and misery become "more democratic," more universal and inescapable.

Similar claims were made, before the World War, by American liberals, who for forty years fought for the taxation of incomes and inheritances to break up the concentration of wealth. They were damned by the embattled owners of great fortunes and their apologists as immoral wretches, anarchist enemies of God and country, a menace to democracy and the republic. For the simple proposal to tax incomes and inheritances! Finally, in 1913 and 1916, the proposals were enacted into Federal law. *But the concentration of wealth, and of income, was not broken; it was strengthened.*

That the concentration of wealth was at least unshaken during the war and the early post-war years, was proved by the Federal Trade Commission's study of the distribution of comparable samples of estates in 1912 and 1923. Curiously, however, the Commission, and the ballyhoo men who seized upon its conclusion, used its figures to "prove" the existence of a tendency toward more equal ownership of wealth. Yet even the Commission did not claim much of a change, merely "an *apparent* trend toward a *somewhat* wider distribution." Merely that, in spite of income and inheritance taxes, of heavy war taxation of corporate profits and the higher incomes, of many economic and political changes. But the conclusion itself was unjustified. "In 1912," according to the Commission's report, "about 29% of all the probated estates amounted to less than \$1,000 each, while in 1923 only 20.8% were less than \$1,000. Furthermore, in 1912, the estates of over \$100,000 each amounted to 52.6% of the total value of all estates, while in 1923, they amounted to only 45.9% of the total."<sup>1</sup> These figures prove the opposite of the Commission's conclusion. In 1923, the purchasing power of money was 45% lower than in 1912; this would nominally raise the value of estates, and the number of small estates would tend to decrease. That is no indication of a more widespread

distribution of wealth. And the fall in the value of larger estates merely meant that, to evade inheritance taxes, many fortunes were partly distributed before the death of their owners.

What the Commission did prove, and prove fully, was the existing great inequality of wealth. By including decedents, the overwhelming majority of workers and poorer farmers, who left estates so small that they were not probated (76.5% of all decedents), and assigning these "estates" an estimated average value of \$258, just enough to bury the owners, the Commission found that:

Estates below \$500, 79.8% of the total, owned 5.6% of the wealth.

Estates of \$500 to \$10,000, 14.9% of the total, owned 12.7% of the wealth.

Estates of \$10,000 to \$50,000, 4.2% of the total, owned 23% of the wealth.

Estates of \$50,000 up, 1.1% of the total, owned 58.9% of the wealth.<sup>2</sup>

The "new capitalism" flourishing in 1923-29 also claimed that wealth was being redistributed in favor of the masses. It made no mention of income and inheritance taxes as a means of breaking up the concentration of wealth. It insisted that this was being done by increasingly higher wages and the more equal distribution of income. The claim was refuted by the facts of stationary wages and increasing income inequality. It was also refuted by the upward movement in the value of the larger estates.\* Although the number of probated estates fell from 13,011 in 1923 to 8,798 in 1929, their value rose from \$2,540 million to \$4,108 million, a much greater rise than in production, the national income, and national wealth. Estates of \$50,000 up rose from 6,344 and their value from \$1,857 to \$3,749 million, an increase of 100% compared with 60% in the value of all probated estates.<sup>3</sup> This substantial upward movement in the concentration of wealth was the natural result of an accelerated accumulation of capital, the amassing of industrial and speculative profits, and the multiplication of capital claims. New fortunes were piled up, and the older fortunes grew tremendously.

One aspect of the "new capitalism" was the theory of "trade union capitalism."† Its assumption was this: if the workers mobilize their "enormous" savings, and invest them in corporate stocks and labor

\* According to Robert R. Doane, *The Measurement of American Wealth* (1933), p. 33, the share of the national wealth owned by incomes of \$10,000 up rose from 38.7% in 1921 to 42.6% in 1929; the share of all incomes below \$3,000 fell from 31.9% to 29%, and of incomes of \$3,000 to \$10,000 from 29.4% to 28.4%.

† This subject is discussed more fully in Chapter XXVI, "The American Revolution."

banks, the working class will eventually get control of industry. Workers will become capitalists, and the antagonism between labor and capital will be ended. "Even a barber, if he owns his razor," said Warren S. Stone, Chief of the Brotherhood of Locomotive Engineers, an enthusiastic advocate of "trade union capitalism" and one of the original labor bankers, "is a capitalist; most workingmen own stocks and bonds."<sup>4</sup> But only a small group of workers were able to buy stocks. Depression has now expropriated most of them. The labor banks are now a mass of ruins. And the "enormous" savings existed only in the imagination of the apologists. "Each year," said one labor banker, "our industrial workers save from \$6,000 million to \$7,000 million in various ways."<sup>5</sup> This conclusion was reached in a simple (very simple) fashion: one estimate of the national savings was \$12,000 million; the workers are more than half the gainfully occupied, so they save that proportion of the national savings!

Workers slightly augmented their absolute share of savings, but not their relative share. Total savings deposits rose from \$6,835 million in 1910 to \$28,218 million in 1929. Over half the increase, however, was an accumulation of interest, totaling \$11,588 million.<sup>6</sup> Another part was a nominal increase, because of the fall in the purchasing power of money. Yet the rise was substantial.\* But the savings were primarily those of the bourgeoisie, not the workers. While deposits in mutual savings banks, where workers are most likely to have accounts, rose 165% from 1910 to 1929, they rose 328% for all banks.<sup>7</sup> In the non-mutual banks savings are not really savings, they are mainly the "time" deposits of businessmen; where they are savings, they are overwhelmingly those of the middle class, especially the upper layers. Nor are wage-workers the majority of depositors in mutual savings banks; less than a third in one Philadelphia bank were workers. Another investigation revealed that, among a group of women workers, only one-half had savings accounts; half of them were under \$100 and only seven over \$500.<sup>8</sup> The ownership of deposits is highly concentrated. In the savings banks and the savings departments of state banks and trust companies of Connecticut, in 1929, the distribution of deposits was as follows:

\* New savings, interest, and insurance, in line with the tendency of capital and capital claims, increased much more than production and the national income, and more in 1919-29 than in preceding periods. Thus savings do their bit to intensify maladjustments and disproportions. And this is true also of those savings which are "rainy-day" funds. Only when the provision for illness, old age, and disability is socialized, in a socialist society, will it stop being a disturbing factor, for then it is done according to plan and the balanced needs of industry.

The smaller accounts, 1,152,311 or 84.3% of the total, had deposits of \$167 million, an average of \$145.

The intermediate accounts, 209,608 or 15.3% of the total, had deposits of \$534 million, an average of \$2,550.

The larger accounts, 5,555 or 0.4% of the total, had deposits of \$79,000,000, an average of \$14,315.<sup>9</sup>

Most workers with savings were included in the smaller accounts, with an average deposit of \$145! And in 1933, of 30,556,105 accounts in Federal Reserve banks, with total deposits of \$23,542 million, 96.5% of the accounts had 23.7% of the deposits, with an average of \$189, while 0.1% of the accounts had 44.6% of the deposits, with an average of \$224,000.<sup>10</sup> Use one or the other set of statistics, and the conclusion is the same: the share in savings of the working class was miserably small. It is smaller now, much smaller, because of losses during the depression and mass unemployment.

The share of the workers was larger, in 1929, in the \$8,695 million assets of building and loan associations, with their 12,111,209 members.<sup>11</sup> But it was far from a majority share, for most of the members are of the lower middle class. (Never, in any previous depression, were there as many foreclosures of small home-owners as in 1930-34, including workers and professionals.)

Nor did the workers have any "enormous" share in life insurance. That is also highly concentrated. In 1932, 402 individuals (thirty-five more than in 1930) owned policies of over \$1,000,000, totaling \$640 million.<sup>12</sup> Average insurance for *all* policyholders was \$3,000. For policyholders with incomes from \$1,000 to \$2,000 the average was only \$1,023, and \$2,798 for those with incomes from \$2,000 to \$3,000.<sup>13</sup> But the average policy of the workers was even smaller. According to one estimate, a working class family in 1924 was able to spend an average of only \$43 on insurance.<sup>14</sup> The workers' real stake is in industrial insurance, although a part of it is carried by non-workers. In 1929, industrial policyholders held insurance of \$17,902 million, or 17.4% of total life insurance; the value of the average holding was only \$360.<sup>15</sup> Workers lose more than they gain, moreover, from industrial insurance. Costs are great. Lapses still greater: they rose from 6% in 1921 to 23% in 1932. In 1929, for every dollar of insurance sold, 67.1% had vanished. For 1928-32 alone, the losses on lapsed policies were \$200 million. There is much more profit for the insurance company in 1,000 industrial policies, of which 500 lapse, than in 500 policies, of which only 200 lapse.<sup>16</sup> Life insurance is identified, not only with the unequal distribution of wealth and income, but with all the preda-



tory aspects of capitalism. The companies are plundered by management, whose upper layers get fabulous salaries; they spent \$921 million in 1929, while the policyholders received \$1,961 million: 32¢ costs for every 68¢ distributed!<sup>17</sup> And, in spite of their mutual character, they are under the control of the financial oligarchy, which manipulates their resources for investment, speculative, and other profitable purposes. . . .

The average workers' family, according to one estimate for 1924, saved \$122 yearly; 24% of the families had an average deficit of \$127.<sup>18</sup>

TABLE V

*Labor Participation in National Savings, 1928*

TYPE OF SAVING	TOTAL SAVINGS (Millions)	LABOR SHARE (Millions)
Savings Deposits	\$2,322	\$ 500
Life Insurance Premiums	2,296	850
Building and Loan	860	300
Corporate Issues	5,346	50
Government Issues	2,035	*
Foreign Issues	1,325	*
Construction	6,628	100
Agriculture	1,500	*
Business Savings	8,000	*
Total (Net)	\$18,000	\$1,800

\* None.

*Source* and methods of computation: All of the labor shares are wholly estimated, except insurance premiums; to \$700 million paid in industrial premiums (Maurice Taylor, *The Social Cost of Industrial Insurance*, p. 193) is added a probable \$150 million for ordinary life premiums. Business savings are additions to corporate surplus and undivided profits of \$6,600 million (Bureau of Internal Revenue, *Statistics of Income*, 1931, p. 48), and an estimate of \$1,400 million as the savings of non-corporate enterprises. The amounts of the different savings are from Department of Commerce, *Statistical Abstract of the United States*, 1931, pp. 280, 318, 876.

Small as the workers' share of the national income is, their share of the national savings is still smaller. This share, in 1928, was only 10% (Table V). It is necessarily small, because all the class-economic relations of capitalism make "saving" a monopoly of the owning and possessing class.\*

\* The workers' small share in savings and insurance disposes of the argument that they have a large indirect interest in corporate ownership. Moreover, the banks and insurance companies own not much over 5% of total corporate stock.

Wealth changes its forms, as social-economic relations change, but not its main characteristic: it is a claim upon production and income. Concentration in a class of the ownership of the means of production, upon which depends the livelihood of society, means a class monopoly of wealth. In one aspect, as tangible things, wealth represents the product of social labor, the means of satisfying society's needs; in another aspect, as ownership, it represents an appropriation of the means of labor and of the product of labor, the power of exploiting the producers. New increments of wealth result from the combined labor of society; under the relations of private property the increments become the possession of a class.

Where wealth is capital it is, as a social relation of exploitation, the "right" to appropriate surplus value, the unpaid labor of workers, and convert it into capital as new means for appropriating more surplus value. That is why capitalist production depends upon continual expansion, upon an increasing output and absorption of capital goods. Great fortunes are typical of capitalist wealth. They are not, however, the result of mere direct appropriation of surplus value; fortunes may be acquired and enlarged by theft of natural resources, by speculation and political corruption, by plunder of the wealth, or realized surplus value, of other owners of property, by mere flukes of chance. But all great fortunes are claims upon production and income, upon the unpaid labor of the workers.

Not the "abstinence" or savings of the individual, but the "savings" of society are the source of new capital. Even where savings are the result of abstinence or thrift, they become capital only by commanding and exploiting labor. Individual abstinence plays a very small rôle in capital accumulation; an impersonal, institutional abstinence, imposed upon the masses by the social relations of capitalist production, is the source of capital. This appears clearly in the three forms of savings:

1. Where savings represent individual abstinence from consumption, they are the least important source of investment capital. It is limited to the savings of the workers, the mass of farmers, and the lower bourgeoisie (who, however, may also appropriate surplus value). This real abstinence produces not more than 15% of the national savings. The savings, moreover, become capital only when they are invested, mainly in the form of the institutional investments of banks and insurance companies, and yield realized surplus value in the form of interest or profit.

2. The major source of "savings" is the surplus income of the intermediate and upper bourgeoisie. It is this surplus the apologetic econo-

mists justify with the theory that "abstinence is the source of capital." But the capitalists are not abstemious. They enjoy all the good things of life. Their great expenditures, especially on conspicuous competitive consumption, are the direct opposite of abstinence. The surplus, and the consumed part of capitalist income, was originally unpaid labor or product of the workers; it becomes income-yielding and wealth-yielding capital by extorting more unpaid labor. (Speculative profits are either realized surplus value or claims upon prospective surplus value.) In one sense, the surplus income of the bourgeoisie *is* the product of abstinence, *of the abstinence from fuller participation in the fruits of their labor, and from consumption, of the masses of workers and poorer farmers.\**

3. On the average, from 40% to 50% of the national savings are the result of business savings, of undistributed profits. Personal abstinence does not contribute to these enormous savings, neither the self-imposed abstinence of the worker, who saves a little for the rainy day, nor the imaginary abstinence of the capitalist. The small businessman who saves a part of his profits performs, it is true, a personal act. But this is of diminishing importance in capitalist production, which becomes increasingly large-scale and corporate; non-corporate enterprises in 1928 contributed not much more than 15% of total business savings. Corporate surplus and undivided profits, in 1927-29, rose \$21,300 million, an average of \$7,000 million yearly.<sup>19</sup> *These are impersonal, institutional savings, independent of individual initiative, a social form of accumulation within the relations of personal property ownership.* In the measure that corporate savings are reinvested and yield profits, they augment the income and wealth of stockholders who, in this particular case, have done absolutely nothing, not even to invest.

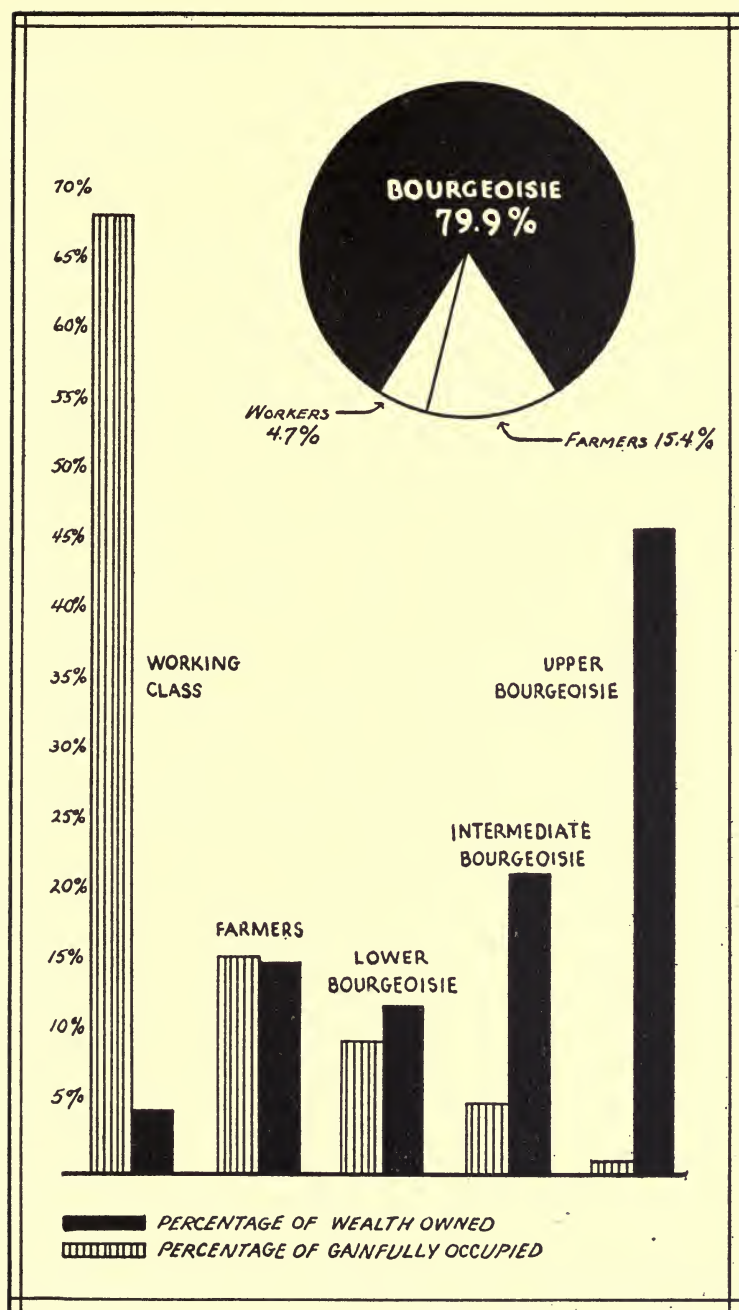
This impersonal and institutional, or social, character of capital accumulation appears most strikingly in credit. When the management of a corporation gets a bank loan, or when its securities are underwritten and, while still unsold, are used by the investment banker to get credit from a commercial bank, the credit represents only in very

\* "The capitalist does not become enriched as does the miser in proportion to his personal labor and his personal abstinence from consumption, but to the extent to which he can put the screw on other's labor power, and to which he can enforce upon the worker the renunciation of all the pleasures of life. Although, therefore, the capitalist's extravagance never has the genuine character of unbridled prodigality which was typical of certain feudal magnates, and although behind it there lurk sordid avarice and anxious calculation, none the less his prodigality grows proportionately with his accumulation, without the one necessarily putting an end to the other." Karl Marx, *Capital*, v. I, p. 635.

small part money *saved* and deposited in the bank. For banks issue credit beyond their actual resources. Loans become deposits, and these deposits become the basis of more loans. Where formerly bank credit was used largely for commercial and working capital purposes, it is now used largely for fixed capital purposes. According to the estimate of one economist, over 50% of commercial bank credit is used for fixed capital.<sup>20</sup> And the greater part of credit is merely an institutional creation, repayable because of the profits it makes by command over labor, capital equipment, and raw materials. Capital created by credit is obviously the product of social labor. There is neither real nor imaginary abstinence, except the abstinence imposed upon the workers producing surplus value. But so is all capital the product of social labor, although it all becomes private property. In final analysis, *the creation of capital is determined by assigning so much social labor to the production of capital goods*, an elementary fact disguised and distorted by the ownership, financial, and predatory relations of capitalist production.

Another source of wealth, independent of personal saving or investment, is the multiplication of capital claims. (Some claims are the result of non-productive investment.) One form of this is the upward movement in land values, capitalizing the growth of population, production, and the national income. Another form is the recapitalization of industry and the inflation of stock values. This may result from speculation, or from capitalizing the general upward movement of production, technological changes, seizure of natural resources, unusually profitable market conditions, formation of monopolist combinations, and monopoly advantages.\* This, in certain stages, may be an unusually important source of capitalist wealth; as in 1898-1914, when monopoly recapitalized American industry. It was important in the pre-1929 prosperity: mergers and combinations yielded great profits to promoters and bankers, and inflated capitalization. Monopolist combinations all capitalized increasing production, the rising productivity of labor, and anticipations of higher profits. An investment, in 1922, of \$10,000 in the common stocks of a group of corporations rose in eight

\* "Those millions of new capital resources were not a result of savings and abstinence, but only capitalization. . . . Technical progress made production cheaper, and this cheapening of processes did not reduce prices—as was the case in the last thirty years of the nineteenth century; the gain in the present century has been absorbed in the process of capitalization. Thus the *private* capital, which is really only a right to income without effort, a multiple of a free income, has been increased without the *real* and social capital being proportionally augmented by saving." L. V. Birck, "Theories of Overproduction," *Economic Journal*, March, 1927, p. 26.



XV. CLASS DISTRIBUTION OF WEALTH—1928.



years to \$23,500, an increase of 235%, in addition to yielding cash income of \$8,535, an average yearly increase of 16.5%.<sup>21</sup> Independent of new investment, capital and capital claims were augmented, rising faster than production and the national income, engendering malad-

TABLE VI  
*Class Distribution of Income-Yielding Wealth, 1928*

CLASS	NUMBER IN CLASS	PER- CENT	WEALTH OWNED‡ (millions)	PER- CENT	AVERAGE
Working Class*	32,500,000	68.5	\$13,500	4.7	\$ 415
Farmers	7,400,000	15.6	43,990	15.4	5,950
Bourgeoisie:†					
Lower	4,300,000	9.0	34,850	12.2	8,100
Intermediate	2,880,000	6.1	61,420	21.6	21,300
Upper	382,241	0.8	131,240	46.1	343,400
Total	47,462,241	100.0	\$285,000	100.0	\$6,000

\* Wage and clerical.

† Lower bourgeoisie, incomes below \$3,000; intermediate, incomes of \$3,000 to \$10,000; upper, incomes of \$10,000 up.

‡ Robert R. Doane, *The Measurement of American Wealth*, p. 25, estimates the 1929 distribution of all wealth, including non-income yielding, as follows: Incomes of \$10,000 up, \$150,691 million or 42.6%; incomes of \$3,000 to \$10,000, \$100,161 million or 28.4%; all incomes below \$3,000, \$102,239 million or 29%. Incomes of \$100,000, a handful of 14,816 individuals (*Statistics of Income*, 1931, p. 39), owned \$46,482 million or 13.2%.

Source and methods of computation: Basic sources are the same as in Table V, and Department of Agriculture, *Crops and Markets*, July, 1929, p. 254. Income-yielding property includes (less duplications) all individually owned corporate stocks and bonds, mortgages, government bonds, foreign securities, real estate, capital value of unincorporated business enterprises, farms, savings deposits, and assets of insurance companies and building and loan associations. Private homes and personal property are excluded. Estimates of class distribution are as follows: Working class—stocks \$750 million, corporate bonds \$250 million, savings deposits \$7,000 million, government bonds \$500 million, share in building and loan assets \$2,500 million, share in life insurance assets \$2,500 million. Farmers—stocks \$625 million, corporate bonds \$1,750 million, savings deposits \$2,000 million, government bonds \$2,000 million, insurance \$1,500 million, farms (\$58,645 million less \$32,530 million value of rented land and debts to non-operators plus probably \$10,000 million for value of rented land and mortgages owned by farmers) \$36,115 million. Upper bourgeoisie—stocks \$48,300 million, corporate bonds \$10,000 million, government bonds \$9,940 million, foreign securities \$5,000 million, unincorporated business \$17,000 million, real estate \$26,000 million, savings deposits \$10,000 million, insurance \$5,000 million. Intermediate and lower bourgeoisie—balance of income-yielding property, apportioned roughly in accordance with income and stock ownership.

justments and disturbances. Many of the gains of recapitalization are wiped out (*not* the part represented by the profits of bankers and promoters). But the losses are a necessary condition of capitalist accumulation, and they help to concentrate wealth in the ownership of financial capitalists. In the epoch of the upswing of capitalism, moreover, the gains were greater than the losses, enlarging capital claims like a snowball going downhill. It is different in the epoch of decline, when losses tend to outstrip gains; this inflames capitalist passions, makes their fight for profits more ferocious, creates new antagonisms and social explosions. . . .

As the accumulation of wealth is essentially an impersonal, institutional function of ownership and class exploitation, the share of the working class *must* be small. It is even smaller than the 10% participation in national savings, because these savings are rainy-day funds, cut into by illness, unemployment, and depression. (If, in depression, a worker uses up his savings, the loss is final. But the losses of the owning class are not necessarily final. If the values of stocks go down, they rise again; if the stocks are sold, what the former owner loses the new owner may gain.) Hence, in 1928, the workers' share in the income-yielding wealth of the nation was only 4.7% (Table VI), half their share of the national savings. Not only is concentration of wealth greater than of income, it is greater than the statistics indicate. For the workers' "wealth" is merely a pitifully small reserve against illness, unemployment, and death. The farmers' share is probably overestimated, and ownership is concentrated in the upper layers; the tenants, share croppers, and poorer farmers, the majority, do not even make a fair living. The share of the lower bourgeoisie is largely bound up with their occupations, their petty business enterprises. Ownership of income-yielding wealth, of capital resources, is a monopoly of the intermediate and upper bourgeoisie, with their 67.7% share massed in corporate ownership and control of industry. Combined they are only 6.9% of the gainfully occupied, the upper bourgeoisie only 0.8%.\*

\* The depression wiped out much wealth and increased the concentration of ownership of the remainder. In 1929, 99% of the people owned only 17% of the nation's liquid wealth (cash, savings deposits, insurance, stocks and bonds); by 1932 their share had dwindled to less than 6%. "This is the most rapid, drastic, and gigantic dissipation, redistribution, and transformation of capital that has, in all probability, ever taken place in so short a period in any individual economy in the history of modern times. . . . That it represents nothing more than a picturesque incident in another of our great 'shifts' of capital is gravely doubtful. It has been far too broad and deep and penetrating this time to allow of easy escape." Robert R. Doane, *The Measurement of American Wealth* (1933), pp. 28-32.

In any class society the ownership of wealth is a monopoly of the ruling class. Its forms change as the mode of production and resulting class-economic relations change. Landholding, the direct exploitation of the producer, was the essential form of pre-capitalist wealth. The commercial revolution in Europe, from the fifteenth to the seventeenth centuries, thrust forth a new type of wealth, derived from trading, mining, speculation, and promotion, while landholding became a new source of wealth by levying tribute upon economic development. Capitalist wealth is based upon the production of surplus value by the workers. Hence it depends upon an increasing output and absorption of capital goods, of new means for the exploitation of labor. But capitalist wealth is also a mass of claims upon production. Great fortunes (*cf.* ownership of natural resources) may represent simply the "right" to a share in the social wealth, in the surplus value appropriated by others. While all capitalist wealth is derived from the exploitation of labor, fortunes may be amassed by plundering other capitalists of their wealth. These conditions become the more typical as industrial capitalism is transformed into monopoly capitalism. The wealth of the financial oligarchy is merely a mass of paper claims upon production and labor, upon the surplus value appropriated by active capitalists, or, increasingly, by hired management as agents of ownership.

Changes in the form of capitalist wealth parallel class-economic changes which express not only the development of capitalist production and exploitation, but also the historical drive toward a new social order.

While in sixteenth-century Europe and after fortunes were piled up out of trade, promotion, and speculation (including the "primitive accumulation" of the expropriation of peasants from the soil), accumulation in the North American colonies assumed at first the older form of large landholdings. Spaniards acquired fortunes by plundering the Aztec and Inca civilizations, another form of primitive accumulation, and by forcing the Indians to dig gold and silver. But farther north there was only land to wrest from the aborigines. The English kings gave title to vast domains to their favorites, often pauperized aristocrats, who combined with merchant capitalists to exploit the grants. Alongside and within the proprietary grants, great landed estates were created. In the New Netherlands, the Dutch also built up large landholdings; the 700,000-acre estate of Killiaen van Rensselaer was not unusual. These manorial estates were worked with tenants and indentured laborers, and the owners were for years dominant political powers. Farther south, the plantation system was based on Negro slavery; the

cultivation of tobacco with slave labor in Virginia produced some of the earliest colonial fortunes. Even after the colonies reverted to the British crown, the accumulation of large landholdings continued, although some of the older ones were broken up. Entailing of land was extensively practiced. The colonial manorial estates represented the transplantation of an essentially feudal type of wealth, but they functioned in an environment which the commercial revolution was rapidly transforming into a capitalist economy; in fact, the estates depended upon trade with England for the profitable disposal of their products.

Another source of wealth was overseas trade, an expression of the world market and developing capitalism. Colonial plunder enriched European merchants and aristocrats, and provided new means for the exploitation of labor. Gold from the New World, while it helped to ruin Spain economically, invigorated the general development of capitalism. (The gold was red with the blood of labor; for, in Mexico and Peru, the working conditions were so terrible that 80% of the Indian miners died every year.<sup>22</sup>) The North American colonies were drawn into the whirlpool of the world market. By 1680, there were thirty merchants in Massachusetts each worth between \$50,000 and \$100,000.<sup>23</sup> The fur trade, supplying the growing luxury demands of the European aristocracy of blood and money, yielded great wealth, mainly for the absentee masters of the Hudson's Bay Company in England. The slave trade, never before organized on such a vast scale, was a fertile source of colonial fortunes. Money lending and a crude form of banking developed to meet the needs of commerce, constituting another source of wealth. By the time of the American Revolution, mercantile fortunes were disputing supremacy with landholding fortunes, although land still enjoyed social recognition as a dominant form of wealth. The father of James Fenimore Cooper owned a manorial estate of huge proportions; his boast was that there were "some 40,000 souls holding land directly or indirectly under me."<sup>24</sup>

The Revolution dispersed some fortunes, particularly among the loyalists whose estates were confiscated as a revolutionary measure; but others became larger and new ones were created, mainly by financing, speculation, and privateering. One revolutionary privateer later increased his wealth from mercantile and manufacturing enterprises, accumulating \$1,800,000.<sup>25</sup> Speculative wealth was greatly augmented when the new Federal government assumed \$70,000,000 of national and state debts; most of the bonds were in the hands of a few speculators, who had bought them at 10% to 15% of their face value.<sup>26</sup> Mercantile fortunes, based upon the expansion of trade, agriculture,



and industry, grew swiftly after the Revolution, with manufacturing fortunes becoming increasingly more important. Stephen Girard amassed a typically capitalist fortune, derived largely from speculative manipulations in banking, trading, manufacturing, and shipping.

With the onswEEP of capitalist enterprise, wealth represented by large agricultural landholdings definitely receded in importance. The protests of tenants forced the adoption of legislation to break up the manorial domains, and the earlier abolition of entail and primogeniture had a similar effect. As large agricultural landholdings dwindled in the East, great landed wealth came to consist of urban realty holdings, whose value was increased enormously with the rapid growth of cities. Similar fortunes arose in the West—in Chicago, Cincinnati, and St. Louis. Speculation in the new lands of the frontier began to assume more importance as a source of great wealth. Land ownership levied its tribute upon economic development and population growth. According to one estimate, in 1846, of the nineteen New York millionaires who owned a total of \$65,000,000, eight, including John Jacob Astor and E. van Rensselaer, were landowners and seven were merchants. But the original wealth of Astor, whose fortune was the largest in its time, came from the fur trade and the oriental trade, and it was multiplied by speculation in urban real estate. Of the seventy-eight fortunes of \$500,000 and over, twenty-six were owned by merchants, seventeen by landowners, five by manufacturers, and seven by bankers and brokers.<sup>27</sup>

The merchant capitalist was now the dominant type. Great wealth based directly on manufactures was still rare; a contemporary chronicle said of one rich man that he had “managed, strange to say, to obtain large profits and wealth” from manufactures. Of nine Boston millionaires, in 1845, only two were engaged in the manufacture of goods. But the designation merchant now covered a multitude of interests. While merchants seldom pioneered manufacturing enterprises, which were considered risky, they financed the distribution of the products and secured thereby a large share of the profits. Thus, in 1834, 85% of the Boston merchants were closely connected with manufactures.<sup>28</sup> Differentiation proceeded steadily, however; many merchants became industrial capitalists and others abandoned trade for finance. The great American investment banking houses were originally mercantile firms. George Peabody gave up trade for international banking and acquired a fortune of nearly \$10,000,000 out of the American need for foreign capital.<sup>29</sup> The founder of the House of Morgan was a merchant. Banking was transformed by developing industry’s greater need for fixed



capital. Merchants and bankers promoted railroads, whose rapid development was an important source of economic change and capital accumulation. The railroads offered an unexcelled opportunity for piling up profits, both "legitimate" and illegitimate; and Jacob Little, reputed inventor of short sales, was already demonstrating how a fortune might be made by railroad manipulation and speculation. The characteristic forms of modern wealth began to emerge, based upon the development of industrial and financial capitalism.

Modern capitalist fortunes appeared much earlier in England, because of the more rapid tempo of industrial development. Immense wealth had poured into England from overseas trade and chartered companies, such as the Africa Company and the East India Company, most of which combined trade, slaving, and colonial plunder. The great wealth stolen by English adventurers in India led to the use of the Indian term nabobs to designate the newly rich. Security speculation, made possible by the rise of joint-stock companies, culminated in the organization in 1711 of the South Sea Company, whose promoters were mainly wealthy merchants. When the South Sea bubble burst, as its predecessor the Mississippi bubble had burst in France, thousands of people were ruined, but some insiders reaped large profits. Meanwhile, in the nooks and crannies of the English economy, forces were accumulating which were to create new riches, to change the form and increase the size of great fortunes. The industrial revolution not only multiplied wealth but also accentuated its concentration. Wealth directly connected with the industrial revolution, in its earlier stages, was made by new men; only after the new industries were successfully established did they prove attractive to the conservative, play-safe owners of older fortunes. But the industrial revolution also enriched aristocratic landowners whose lands contained coal, iron, and other minerals, and whose ancestral privileges enabled them to levy tribute upon economic progress. The earliest of the new capitalist fortunes arose in the coal and iron industries. Although Henry Cort, whose processes transformed iron making, died a poor man, the ironmasters who violated his patents secured great wealth. In the districts of South Wales, where the new industrialism flourished most vigorously, and where labor and social conditions, according to one authority, combined "the worst features of the industrial revolution,"<sup>30</sup> capitalists in a few years amassed huge wealth from the most merciless exploitation of labor and the needs of industry. Another crop of rich men was produced by the textile industry, which ruthlessly expropriated craftsmen and sweated women and children, and also disrupted

the village economy of India based on handicraft weaving. Great wealth was also acquired by exploiting railroads, especially in the form of speculation. Investment bankers (Rothschilds, Barings) garnered great profits from promotion, and from the export of capital for government loans and the financing of railroad construction on the continent, in the United States, and in Latin America. Never before had wealth poured forth in such a torrent as in capitalist England between 1815 and 1850, and never were the conditions of the working class more miserable. At the same time, land fortunes were still powerful; even after the Reform Bill of 1832, land represented political power and social prestige. While aristocratic landowners had their wealth increased beyond the dreams of their ancestors by industrial and urban growth and by corporate investments, industrial and commercial capitalists bought landed estates in order to qualify for titles and social position: the parvenu spirit of the bourgeois!

Capitalist development on the European continent paralleled English development on a smaller scale. As the financial manipulations of the Rothschilds spread beyond Germany, they became the most powerful factor in the realms of international finance. Their function was essentially the mobilization for capitalist investment and exploitation of the wealth of the feudal aristocracy based on pre-capitalist forms of exploitation. Industrialism and corporate enterprise encouraged promotion and speculation, all forms of the financial plundering of economic progress. The *Crédit Mobilier*, which offered competition to the Rothschilds, paid fabulous dividends in the 1850's, and then crashed. France under the tragic mountebank, Louis Napoleon, was the paradise of corrupt and predatory speculators and adventurers (including the emperor); other fortunes were made by industrial capitalists in coal, iron, and textiles. All over the continent railroads were built, enriching their promoters, not the builders. Railroad construction was often beyond immediate economic needs, imposing new burdens upon the workers and peasants; but promoters raked in the profits. Holland was no longer the important power it had been in the sixteenth and seventeenth centuries, but the Dutch merchant capitalists continued to draw wealth from the exploitation of their colonial possessions. The rapid industrialization of Germany was the basis of many great fortunes. Aristocracy in Germany, almost as much as in England, allied itself with capitalism and enormously increased its wealth. Thus the feudal landowners of Upper Silesia piled up great fortunes by the capitalist exploitation of coal, iron, and other minerals on their estates. In 1913, of the five greatest fortunes in Ger-

many, three were owned by landholding aristocrats; in England, the Duke of Westminster had an income of £200,000, mainly from rents.<sup>31</sup>

By 1890, the more industrial nations of Europe—England, Germany, France, Belgium—were actively engaged in the struggle for imperialist supremacy, which led inexorably to the catastrophe of the World War. Imperialism, the predatory aspect of the industrialization of the world's economy, the expression of the developing forces of capitalist decline, became a most important factor in the accumulation of wealth. Capitalist industry came increasingly to depend upon the export of capital and the exploitation of economically backward countries as the source of cheap raw materials and even cheaper labor. Immense profits were made in China by financiers, promoters, speculators, and ordinary adventurers. Construction of railroads in Asia, Africa, and Latin America yielded profits which in many ways suggested tribute levied upon the conquered.\* Loans were knowingly made to the corrupt governments of economically backward peoples, and wasted; interest and principal were repaid by the blood and agony of the workers and peasants. A cabal of Belgian aristocrats, financiers, and speculators, led by King Leopold, drew immeasurable wealth from the horrible exploitation of men, women, and children in the Congo, including "disciplinary" massacres and mutilations. French and Belgian financiers drew wealth from the construction of the Trans-Siberian and the Chinese Eastern railroads. (The Soviet Union expropriated these properties, but the financiers had unloaded the losses onto small investors.) In Africa the British South Africa Company of Cecil Rhodes extorted profitable concessions from the natives, and inextricably merged his wealth and business interests with the politics of imperialism. The basis of empire, said Rhodes, is "philanthropy plus 50%"<sup>32</sup> His imperialist schemes led directly to Britain's war with the Boers. An aspect of imperialism was the augmenting of competitive armaments; the most brutal, unscrupulous, and predatory capitalists flocked to the munitions industries, creating and exploiting war scares, some amassing incredibly large fortunes. (American capitalists, on a smaller scale, did the same thing in Latin America.) Munitions capitalists during the

\* Conditions were typical in Mexico, where British, French, and American financial adventurers plundered the Mexican people. Thus the Vera Cruz Railroad, capitalized at \$40,000,000, could have been built for \$10,000,000, yet paid dividends of 5% to 12%. Corruption and construction frauds were widespread. One source of extra profits was unnecessary mileage, using the longest, most crooked routes, to get the government subsidy. Matías Romero, *Railways in Mexico* (1882) p. 8. Mexico was one of the earliest stamping grounds of American imperialism.

World War traded with the enemy and provided means to kill "their own" soldiers—for a profit.

The mounting needs of European industry for overseas raw materials produced some native fortunes. A landholding family in Chile increased its wealth to \$70,000,000 by capitalist exploitation of minerals, and a Bolivian family amassed over \$200,000,000 from ownership of tin mines.<sup>33</sup> But, by and large, the natural resources of economically backward countries, and their profits, were seized by foreign capitalists. In these countries the older type of landholding fortunes persisted, although modified by capitalist influence. Personal exploitation of political power yielded immense wealth to the inner clique of Porfirio Díaz in Mexico and to Juan Vicente Gómez of Venezuela. The Venezuelan, when he became president in 1908, was a poor man; twenty years later his private fortune was enormous. The native exploiters of both countries "made" their money by an alliance with foreign capitalists, involving robbery of natural resources and the most brutal suppression of workers and peasants. All this involved some of the most brutal forms of primitive accumulation.

Great as were the European fortunes created by capitalist development, they were smaller than those piled up in the United States after the Civil War, which strengthened capitalism economically and liberated it politically. Relatively unhampered by older vested interests and the culture of an older civilization, with an almost "pure" acquisitive ideology justifying unrestricted money-making, American capitalism drew upon the apparently inexhaustible natural resources of an undeveloped continent, exploiting them with the aid of large and poorly-paid masses of immigrant labor provided by Europe.

The seizure and exploitation of vast natural resources, a form of primitive accumulation, was of fundamental importance in the formation of many American fortunes. Most of the natural resources were originally part of the public domain, which in 1860 still consisted of 1,048 million acres. But they came into private capitalist ownership by "the benevolent paternalism" of a government, according to one bourgeois historian, which "sold its natural resources for a song, gave them away, or permitted them to be stolen without a wink or nod. . . . The public land office of the United States was little more than a center for the distribution of plunder."<sup>34</sup> Not only capitalists became rich by exploiting natural resources; somnolent farmers acquired wealth overnight by the discovery of minerals or oils in their lands.

Speculation was a mighty source of wealth in the Civil War, exploiting the war needs of the government, and connected with polit-



ical corruption. The founder of the Armour dynasty made a killing speculating in pork. Jay Cooke built up his fortune financiering in government bonds. In the period immediately after the Civil War many fortunes were wrested from the railroads. Yet the legitimate construction costs of the great American railroads were more than paid for by Federal, state, and municipal contributions of \$700 million and grants of 155 million acres of public lands.<sup>35</sup> Cornelius Vanderbilt's great wealth came almost exclusively from speculating in railroads and watering their stock as an accompaniment of consolidation; he left \$100 million and one of his sons left \$200 million. More than \$40,000,000 were extorted from the Union Pacific Railroad in excess construction costs; the profits were distributed among promoters and politicians.<sup>36</sup> Jay Gould's fortune of \$72,000,000 came mainly from railroad manipulation and speculation; it was identified with no constructive achievement. Many others exploited the railroads in similar fashion. When speculation, mismanagement, thievery, and unbridled competition drove the railroads into bankruptcy, wages were cut and workers on strike brutally suppressed, while thousands of small investors were ruined; but reorganizations yielded large profits to financiers and promoters. Part of the Morgan money and power came from this source. Other great fortunes (Hill, Harriman) were piled up by speculation in railroads and their consolidation into overcapitalized systems from 1895 to 1905. Underlying it all was a mounting production and realization of surplus value.

While the older fortunes did as a rule no economic pioneering, parasitically satisfied with safe investment and income, the onward sweep of technology and general economic progress revolutionized one industry after another; men of small means, who entered the new industries at an early stage, amassed large fortunes by shrewdly capitalizing new developments and inventions. (Inventors seldom became wealthy. In Wall Street they said: "It's the third or fourth man who cleans up on inventions.") The Armours in meat-packing, Cyrus McCormick in agricultural implements, George Westinghouse in electrical manufacturing, Andrew Carnegie and Henry Clay Frick in iron and steel—all levied tribute on technical-economic changes and tribute on labor. Conditions in the iron and steel and coal regions of Pennsylvania were typical; workers were held in a sort of feudal bondage, shackled by the law of the masters, and killed, if they went on strikes, by the masters' police.

The 1860's-90's was the epoch of the industrial capitalist, who participated directly in industry. But only within limits; for the specula-



tor was everywhere and the financial capitalist made his appearance with the development of monopolist combinations. Technological changes, large-scale production, and competition drove inexorably to industrial concentration and corporate combination. The profits of monopoly were tremendous; the Standard Oil Company, with an original capitalization of \$1,000,000, between 1882 and 1906 paid out \$548 million in dividends, while other millions were represented by reinvested profits and cash resources.<sup>37</sup> Equally tremendous were the profits of trustification; the series of combinations in the steel industry, which culminated in the United States Steel Corporation, yielded the promoters profits of at least \$150 million.<sup>38</sup> Profits of this type were often fortuitous; in order to prevent the revival of ruinous competition and to form the steel trust, Carnegie was paid \$447 million for his interests, twice what he would have accepted two years previously. By 1900, the industrial capitalist was swiftly receding into the limbo of small-scale industry or was becoming a financial capitalist, with interests in a multitude of enterprises, promoting, speculating, financing, *not* engaged directly in production. The Standard Oil multi-millionaires, an oligarchy dominated by John D. Rockefeller, were now promoters, speculators, and bankers on a large scale; "their resources are so vast," said one financier, "there is an utter absence of chance" in their manipulations.<sup>39</sup> Another source of great fortunes (Morgan, Stillman) was investment banking, growing with the expansion of corporate enterprise and trustification and allied with promotion and speculation. For the separation of ownership and management vested control increasingly in the financial capitalists and the great banks. Industrial concentration was paralleled by centralization of financial control, of which the dominant institutional expression was the House of Morgan.

The swiftly rising stream of national wealth was deflected into other, if minor, channels—politics, patent medicines, journalism, the law. Politics favored predatory capitalists more than corrupt politicians; it served the capitalist class in general and special capitalist groups in particular. But there were many chances for the politician; they expected, and got, something in return for handing over the nation's natural resources to capitalists or for giving them tariff benefits. "If I had my way," said one politician, "I would put the manufacturers over the fire and fry all the fat out of them."<sup>40</sup> Millionaires who looted traction systems (Yerkes, Ryan) worked hand in hand with municipal political machines, stealing franchises and plundering the public. The clash of predatory interests gave lawyers their

opportunity, especially the corporation lawyer, who twisted the law (e.g., the "due process" clause enacted in the interest of the Negro, but distorted to protect the "rights" of capital) and swayed courtrooms on behalf of his corporate clients. Journalism cashed in on advertising, capitalized public prejudices, and protected capitalist interests; the mercenary struggle for circulation between Hearst and Pulitzer contributed to the making of the Spanish-American War. Under the forms of bourgeois democracy, class rule needs the services of journalism and the law, and they get their share of the spoils. The beginnings of American imperialism, from 1880 to 1900, swelled the stream of capitalist wealth. In Chile and Peru, Henry Meiggs and William R. Grace (the "Pirate of Peru") made substantial fortunes exploiting natural resources, promoting railroads, organizing banks, mixing in dirty, murderous politics. Minor C. Keith, the "American Cecil Rhodes," piled up immense wealth as the spearhead of American economic, financial, and political penetration of the Caribbeans, creating an empire fertilized with the blood of peons, ruled over by the monopolist combination, the United Fruit Company, with its banana and other plantations, its railroads, ships, and banks, protected by the might of the American government.<sup>41</sup> . . .

In 1892, the New York *Tribune* published a list of 4,047 American fortunes of \$1,000,000 and over, which shows quite clearly the change in the dominant form of wealth since 1845.<sup>42</sup> Of the 4,047 millionaires, 1,140 or 28% secured their wealth from manufactures. The next largest group, merchandising, numbering 986 millionaires, included, however, great merchants engaged in other enterprises as well; thus of Marshall Field's \$120 million estate, his interest in Marshall Field and Company was valued at \$3,400,000, the balance including investments in (besides real estate) 150 industrial, public utility, and financial corporations. There were 468 fortunes connected with real estate; 410 with transportation and communication, including 186 railroad magnates; 356 with banking, brokerage, and insurance; 286 with mining, of which seventy-two were based on the production, refining, and transportation of oil; and 168 with forest ownership and lumber manufacture. Of the eighty-four millionaires who derived their fortunes from "agriculture," forty-seven were Western cattle ranchers, a group of whom President Theodore Roosevelt's land commission said that "hardly a single title is untainted by fraud;" fifteen were owners of plantations in the South, and six owned plantations in Latin America. The professions contributed seventy-three fortunes of \$1,000,000 and over; sixty-five of them belonged to lawyers, mostly corpora-

tion lawyers, and only three were based on accumulations of patent royalties.

What manner of men were these millionaires, who got into their hands the greater part of the wealth produced by the labor of a nation? Their attitude toward labor was expressed by the management of the Carnegie Steel Company, who provoked the bloodshed at Homestead in order to crush unionism, and one of whom said: "If a workman sticks up his head, hit it."<sup>43</sup> Their general attitude was expressed by Cornelius Vanderbilt: "Law? What do I care for the law? Haint I got the power?" And by J. Pierpont Morgan: "I owe the public nothing. Men owning property should do what they like with it."<sup>44</sup> . . .\*

From 1900 to 1914, the accumulation of great wealth, because of the slowing down of the rate of economic development and the growth of monopoly capitalism, became increasingly dependent upon the re-capitalization of industry, upon promotion and speculation. As concentration of income was augmented, and fortunes became still more swollen, financial capitalists tightened their grip upon corporate industry. The combination movement swept onward, piling up paper claims upon production and income. The "water" in the United States Steel Corporation, whose capitalization of \$1,400 million was based upon tangible assets of only \$682 million, was a typical case of capitalizing monopoly advantages and profits. Imperialism, moreover, became more important as a source of wealth.

The early years of the World War were a godsend to the American accumulators of great wealth, exploiting the agony of Europe. Scores of new millionaires were created after the United States marched forth "to make the world safe for democracy." European developments were similar. Then revolution and inflation changed the distribution of wealth. The communist revolution in Russia confiscated and socialized wealth, along with the expropriation of the bourgeois and feudal classes. The Succession States broke up many of the large estates of the old aristocracy. Inflation wiped out much of the wealth of the middle class, but financial and speculative capitalists were enriched.

\* "Man is a beast of prey. The tactics of his living are those of a splendid beast of prey, brave, crafty, and cruel. . . . A beast of prey is everyone's foe. Never does he tolerate an equal in his den. Here we are at the root of the truly royal idea of property. Property is the domain in which one exercises unlimited power, the power that one has gained in battling, defended against one's peers, victoriously upheld. It is not a right to mere having, but the sovereign right to do as one wills with one's own." Oswald Spengler, *Man and Technics* (1932), pp. 26, 28. The Prussian Junker and the capitalist are *geistige* brothers under the skin.

The devastating inflation in Germany liquidated many fortunes, and few escaped intact, particularly those based on "fixed" investments; but out of the general ruin a few monstrously large fortunes arose. Inflation and deflation produced similar results in other European countries on a smaller scale. Post-war France illustrated beautifully how abstinence is the source of great wealth. In the "recovered" provinces of Alsace-Lorraine, industrial enterprises expropriated from the Germans, worth 8,000 gold francs *were sold secretly* to a score or two of Frenchmen for 180 million paper francs. One of the beneficiaries was the Comité des Forges, the steel trust, which received tremendously valuable iron mines and works.<sup>45</sup> In general, because of economic crisis and decline, the accumulation of wealth in post-war Europe consisted mainly of the redistribution and concentration of existing wealth; new fortunes usually arose out of speculation, financiering, and the recapitalization of industry by means of monopolist combinations, national and international.

In the United States the post-war period was characterized by an increasing concentration of wealth and the augmenting of great fortunes. Mergers, combinations, and speculation yielded enormous profits. Foreign investments became an increasingly important source of capitalist wealth. On the basis of income-tax statistics there were, in 1929, probably 30,000 American millionaires, compared with 7,000 in Great Britain. In this same year, 504 multi-millionaires with incomes of \$1,000,000 up<sup>46</sup> held claims to wealth amounting to over \$30,000 million, or nearly one-third more than the national wealth of Italy. This immense wealth was in the form of paper claims upon production and income. Marx said that wealth in the capitalist mode of production takes the form of an immense accumulation of commodities; from another angle, it may be said to-day that capitalist wealth takes the form of an immense accumulation of paper. In the great American fortunes, landownership is relatively unimportant except in the case of some fortunes based on urban realty (ownership of natural resources by corporations is, of course, extremely important). The wealth is represented by investments in a broadly diversified group of corporate enterprises, with a backlog of government bonds. In 1929, incomes of \$5,000 up reported ownership of \$5,373 million of tax-exempts,<sup>47</sup> in addition to other government bonds. In the case of fortunes with yearly incomes of \$100,000 to \$150,000, their wealth consisted 58.3% of stocks and bonds, including foreign securities, and 91.9% in the case of fortunes with incomes of \$1,000,000 up.<sup>48</sup>

The characteristic form of modern capitalist wealth—paper claims



upon production and income—contrasts sharply with older types of fortunes. The wealth of the feudal aristocracy was associated with land, that of industrial capitalists with particular enterprises; both had a tangible form and definite habitation. Contemporary capitalist fortunes, on the contrary, are liquid, mobile, intangible, a mass of paper rights to ownership. At the basis of this development are the concentration of industry, the separation of ownership, management, and control, and the transformation of the industrial capitalist into the financial capitalist. One aspect of these developments is the increasing importance of the passive, wholly parasitic rentier, the mere clipper of coupons. It has been estimated that individual trusts managed by banks for their owners, whose only function is to receive and spend the income, are worth over \$25,000 million. The value of such trusts, for national banks alone, rose from \$922 million in 1926 to \$4,319 million in 1930.<sup>49</sup> Ownership here is separated even from administration; private income is drawn from collectively produced and collectively managed wealth.

Modern wealth is separated from direct participation in industry; its owners are absentee capitalists, with management and control assuming institutional forms. Because of this the possession of wealth does not carry responsibilities with regard to the sources from which it is derived. The lord of the manor had definite obligations, either legal or customary, to the tenants on his land, the serfs who cultivated his domains, and his household servants. Where the industrial capitalist recognized obligations to the workers in his factory or the consumers of his product, they were forced upon him by his identification with a particular enterprise. The modern financial capitalist, whose fortune is scattered in scores of corporate enterprises and perhaps in almost as many countries, effectively escapes such responsibilities. Even if he owns a large block of securities in a particular enterprise, he may plead that the responsibility is not his but that of management. Thus, in 1926, when John D. Rockefeller, Jr. was asked to influence the management of a railroad, which was waging ruthless war upon its striking workers, the unctuous son of an unctuous father replied:

“The facts are that the combined holdings of our family, together with those of the funds to which this stock may have been given, represent considerably less than 25% of the stock of this company. [He was, however, the largest single stockholder.] Only two of the twelve directors can be regarded in any sense as representatives of our interests. The management of this company is entirely in the hands



of the board of directors and, no matter what my personal views may be, I don't control the situation." <sup>50</sup>

This is a clear example of relations of private claims to ownership persisting within what are essentially collective or social forms of production and management. Wealth has assumed a form which makes it ripe for expropriation and socialization: the wealth expropriated from the producers reverts to them in the form of social property, serving the whole of society. For the antagonism between the two opposites, proletariat and wealth, is, in the words of Marx, resolved by the synthesis of socialism, in which both private property and the proletariat disappear. . . .

An expression of private property and class rule, the unequal distribution of wealth results in great fortunes at one extreme and poverty at the other. All legislative efforts to break down the concentration of wealth have failed; it increased tremendously in the United States following the introduction of income and inheritance taxes. The revolutionary bourgeoisie, which objected to great feudal fortunes and in many cases confiscated them, considered the "free ownership" of property equivalent to social equality; but bourgeois private property constituted the starting point of accumulations greatly exceeding the feudal fortunes. In the United States the middle class from 1880 to 1914 waged bitter war upon "tainted wealth" and "unearned increment," but this class defended the system of private property out of which great fortunes arose.

The augmenting of capitalist wealth depends upon an increasing output and absorption of capital goods, the means for the exploitation of labor and the production and realization of surplus value and profit. Under the conditions of decline, with the output of capital goods and capital accumulation moving downward, wealth decreases relatively, if not absolutely. Unemployment and lower wages make still smaller the workers' share of the national wealth. Concentration moves upward, on a lower level. More than ever capital claims and speculation become the source of capitalist wealth. But in the measure that wealth tends to decrease, the struggle for a larger share among the capitalists becomes more intense, aggravating the maladjustments and instability of capitalist production. Wealth takes more and more the form of debt, particularly of public debts. This is an old trend acquiring new vigor. The government debts of the world rose from \$7,500 million in 1815 to \$30,000 million in 1900 and \$250,000 million in 1933, a stupendous increase even after making allowances for the changes in the purchasing power of money. The total public debts of the United States,

which rose from \$4,850 million in 1912 to \$36,822 million in 1932, yielded an interest of \$1,500 million; a similar amount was yielded by the national debt of England.<sup>51</sup> Since ownership of government bonds is "bunched" in small groups, and taxation covers the whole of society, the burden of public debts is enormous.\* They tend to increase, moreover, as the capitalist state makes larger and larger expenditures to overcome crisis and economic decline, and to prepare for war under the conditions of intensified imperialist rivalry. Not only does the distribution of wealth become more unequal, it also becomes more parasitic, for in the form of debt it is a first claim upon the diminishing fruits of labor. *Wealth now tends to increase in the hands of the few only by an absolute lowering of standards of living among the many.*

Both the forms of capitalist wealth and its unequal distribution are underlying forces in the creation of cyclical crisis and breakdown, and the decline of capitalism. But those very forces are simultaneously an expression of developments which make possible a new social order. Capitalist wealth as a mere mass of paper claims upon production and income grows out of the socialization of production, the possibility of its transformation into social property, or socialism. And the very conditions of large-scale industry, resulting in the separation of ownership and management, make the industrial proletariat increasingly the carrier of a new social order. In this new order, the work of production does not pile up great fortunes whose only function is to own and exploit.

\* Most public expenditures, out of which public debts arise, are non-constructive. Only 1.3% of the expenditures of the national government in the United States (1927) was for social services, including education, 9.6% in France, and 15.6% in Britain (1929). On the other hand, the American expenditures on war (including pensions and debt interest and retirement, most of the debt being incurred for war purposes) were over 70%, the French 69%, and the British 70%. Paul Studenski, "Public Expenditures," *Economic Foundations of Business* (1932), p. 450. The percentages are not wholly comparable because of differences in government functions; thus the national government in the United States, unlike the French and the British, has little to do with education. But they are indicative of the general situation.

## Summary

**C**ONTRARY to the claims of the myth-makers of the "new capitalism," and wholly in line with the nature of capitalist production, there was an upward movement in the concentration of income and wealth during the prosperity of 1923-29.

The solid foundation of the concentration of wealth and income is private ownership of the means of production, upon which depends the livelihood of society, and which permits the owners to exploit the workers. But forms of ownership and exploitation change. The capitalist originally combined the functions of exploitation and management; he was at one and the same time the organizer of industry and its plunderer. With the development of large-scale, corporate industry, however, the separation of ownership and management has deprived the capitalist of his managerial functions. The multiplication of stockholders—with ownership a monopoly of the bourgeoisie, the working class having an insignificant stake in corporate ownership—has vested management in a class of hired professional managers, while control is usurped by the financial capitalists, who merely rule and exploit. The basis of this development, the socialization of production, is also the objective basis of socialism. For modern corporate industry retains private property relations within the relations of social production and social property.

Unequal distribution of income and wealth is identified with all the exploiting relations of capitalist production, with all the forces of cyclical crisis and breakdown. They are also identified with the decline of capitalism, for it is the socialization of production which has so increased the productive powers of society that they choke capitalism with the abundance they are capable of yielding. These conditions demand new social relations of production, a new social order. Resistance to this demand by the capitalist class is responsible for increasing instability, for economic decline, for the social convulsions now afflicting the world.

The capitalist expression of the socialization of production is monopoly capitalism, dominated by the financial oligarchy. Since monopoly retains all the old relations of private property, it is identified with

restriction of production, with economic decline, with the export of capital and imperialism as the means of broadening the economic basis of national capitalism, of securing markets for surplus capital and surplus goods. Thus the progressive possibilities of modern industry are turned into their negation, into a source of want, unemployment, and war.

As capitalist decline becomes worse, mass disemployment limits the production and realization of surplus value, the accumulation of capital. All the stronger is the drive of capitalism toward imperialist aggression and war. For in foreign markets and the overseas investment of capital the capitalist class, especially the financial oligarchs who dominate monopoly capitalism, see a way out of the crisis. As the inner sources of wealth tend to dry up because of economic decline, as surplus capital, unable to find profitable investment at home, becomes more threatening, all the highly industrial nations of the world concentrate on the task of conquering foreign markets. Monopoly capitalism and imperialism, arising out of capitalist production and its concentration of income and wealth, are interlocked with the decline of capitalism, and inevitably bring on the threat of more devastating wars.

PART SEVEN

Monopoly Capitalism and Imperialism





## Introductory

UNDERLYING the resplendent mythology of the pre-1929 prosperity was the real and contradictory movement of economic forces. Instead of realizing prosperity everlasting, and precisely because of the economic upswing which created the illusion, it marked the final transformation of competitive capitalism into monopoly capitalism, and of monopoly capitalism into imperialism. This transformation was *the* feature of post-war developments in the United States, conditioning prosperity, the character and prolongation of the depression, and the decline of American capitalism. These are the major aspects of the transformation:

The increasing concentration of industry and centralization of corporate control under the domination of monopolist combinations of capital.

The increasing concentration of financial institutions under control of a financial oligarchy, which dominates economic life by the combined mastery of monopolist combinations, investment resources, and credit.

The final realization of the rule of finance capital, *i. e.*, the fusion of industrial and banking capital; tighter centralization of the financial control of industry.

The export of capital on a constantly greater scale and the consolidation of imperialism as the definite expression of American capitalism; an intensified struggle for foreign markets to absorb surplus capital and goods, an aggressive foreign policy, larger armaments, reaction, and the threat of war.

Two important changes in class relations: final suppression of the farmers as a class capable of independent action on a capitalist basis; final transformation of the middle class from an enemy into a dependent of monopoly capitalism, and the consequent collapse of the struggle against the trusts.

The growth of monopoly and imperialism, inescapably determining the future of American (and world) capitalism, comprises the real significance and historical character of the pre-1929 economic changes—not the temporary prosperity and its vulgar mythology. While the

apologists were crowing that hard times could only prevail among lesser peoples outside the law of American prosperity everlasting, the contradictory nature of prosperity's development produced a depression worse than in any other country. While the apologists were crowing about national self-sufficiency, the export of capital and imperialism were binding the American economy with new chains of steel to the economy of the world market. Monopoly and imperialism contributed to the coming of depression and its prolongation, for they express all the underlying contradictions and antagonisms of capitalist production. Yet the efforts of the NRA, of state capitalism, to "assure" a new permanent prosperity tend to *strengthen* monopoly and imperialism, a fundamental contradiction which dooms the program to disaster.

Monopoly and imperialism are not new; they have been developing in the United States since the 1880's. What is new is their *maturity* and *supremacy*, and their significance as elements in the decline of capitalism.

## Trusts: Concentration and Combination

TRUSTS began to assume definite shape in the 1880's, and have since increasingly dominated the American economy.\* The first social-political reaction was: "Smash the trusts!" But they grew inexorably. The second reaction was: "Regulate the trusts!" But they bent regulation to their own purposes: trusts became more and more ascendant. Regulation, at least in theory, was still suspicious: *some* limits *ought* to be imposed upon the trusts. Now apologists of the NRA, of state capitalism, urge another policy: complete acceptance, even the strengthening, of the trusts, with, however, "social control." The policy has thus been formulated by Rexford Guy Tugwell:

"We are resolved to recognize openly that competition in most of its forms is wasteful and costly; that larger combinations must in any modern society prevail. We go further: we say that they should be allowed to prevail, but only under such conditions of control as assure a just distribution of the wealth they develop and now accumulate to the people as a whole."<sup>1</sup>

This policy is not altogether new. For in the past it was argued that regulation should destroy the evil but retain the good in trusts, as they "organize" production and "implement" prosperity. The sufficient answer is the disorganization of industry which led to the economic catastrophe of 1929-34. Why should the "new" policy be more successful? . . .

Trusts, the monopolist combinations of capital, arise out of free competition and accumulation, out of the struggle for profits and survival in which the stronger garner victory. Underlying this development was the technical-economic transformation of industry, augmenting fixed capital and the scale of production. Concentration is the basis of combination. While both are a reaction against competition and the result of accumulation, the emphasis is different. Industrial concentration is essentially technical-economic, originating in the efficiency of larger producing units. Combination is essentially financial,

\* And, of course, the economy of other industrial countries. In addition the trusts, by means of the export of capital and imperialism, have increasingly dominated the economy of non-industrial and economically backward countries.

the centralization of control, exploiting but not limited by industrial concentration and technical-economic efficiency. Both concentration and combination yield greater control over competition, markets, prices, and labor.

The distinction between concentration and combination is not merely theoretical; it involves a difference in historical stages and in forms of class control. In the United States, before 1898, trustification was primarily industrial concentration, under control of industrial capitalists; \* after 1898, trustification was primarily financial combination, under control of financial capitalists, promoters, and bankers.

Concentration after the Civil War developed almost as rapidly as industrialization itself. This was particularly marked in the 1870's. While the number of manufacturing establishments was virtually stationary, rising from 252,148 in 1869 to 253,852 in 1879 (including a multitude of hand and neighborhood enterprises, which minimize the trend toward concentration), capital investment rose from \$1,694 million to \$2,790 million, wage-workers from 2,054,000 to 2,733,000, and output from \$3,386 million to \$5,369 million.<sup>2</sup> This process of industrial concentration was the basis of trustification.

The primarily industrial character of concentration appears clearly in the development of three typical concentrated enterprises: the Standard Oil Company, the Carnegie Steel Company, and the meat

\* Concentration and combination proceeded almost simultaneously on the railroads, because of greater capital requirements and more ruinous competition. While manufacturers were dominated by the industrial capitalist operating with his own money, railroads were dominated by the financial capitalist operating with the money of others, including the government. Separation of ownership, management, and control, by the multiplication of stockholders, appeared on a large scale first on the railroads. Buccaneers of the type of Vanderbilt, Daniel Drew, Gould, Jay Cooke, Collis Huntington, and Leland Stanford plundered the railroads at a time when similar plundering was almost unknown in other fields of industry (except municipal traction, where financial plundering, mismanagement, and political corruption were at least as great as on the railroads). Buccaneering, mismanagement, and ruinous competition threw most of the railroads into bankruptcy from 1879 to 1899. This gave bankers and other financial capitalists another opportunity. Railroad reorganizations, mainly by J. P. Morgan and Company, not only yielded great profits but promoted combination and the tightening of financial control. By 1900 more than half the railroad mileage was included in six systems: Morgan, 19,073 miles; Morgan-Hill, 10,373 miles; Vanderbilt, 19,517 miles; Pennsylvania Railroad, 18,220 miles; Harriman, 20,245 miles; Gould, 16,074 miles. As their bankers and members of the directorates, the Morgans had considerable influence over the Vanderbilt and Pennsylvania systems. Harriman and Gould were allies, and owned stock in banks and insurance companies. Harriman, in particular, was associated with the National City Bank of New York, dominated by Rockefeller interests. See Lewis Corey, *The House of Morgan* (1930), Chapters XV-XVII and XIX.



packers, Armour and Company. Increasing efficiency, use of the most improved technology, and enlargement of the scale of production were the basic factors. Standard adopted the most economical methods of refining and marketing and promoted the more efficient pipeline transportation. Carnegie Steel was always introducing new processes, including coke, making plant improvements and extensions. The Armours led in the elimination of waste, the introduction of chemical control for better quality and more utilization of by-products, and the use of refrigerator cars. Enlargement of the scale of production produced integration, stimulated by competitive purposes of control over sources of raw materials and transportation and by efforts to secure the profits of related fields of production to offset the fall in the rate of profit. Carnegie Steel acquired iron and coal mines, coking plants, and means of transportation. The Armours owned stockyards, their own refrigerator cars, and distribution systems. While Standard adopted the plan of separate companies, under common ownership, specializing in production, transportation, refining, and marketing, the whole constituted one giant integrated concern. Efficiency, with its lower costs and prices, was used to wage ruthlessly the battle of competition. Except in the case of Standard Oil, and even with them only to a minor degree, competitors were not absorbed, they were destroyed. (The existence of many small producers made it unprofitable to absorb them.) Carnegie was against combination because it meant including inefficient plants; his emphasis on competition was typical of concentration and the industrial capitalist. Although efficiency was primary, it was not the only factor; competition was also waged by means of price wars, by terrorism, especially in the case of Standard Oil, against competitors, by extorting discriminatory rates and rebates from the railroads. Monopoly elements yielded particular advantages. Carnegie Steel became dominant only after acquiring the Frick coking interests, coke being indispensable in the newer and more efficient metallurgical processes; the dominance became almost impregnable with the achievement of monopoly in unfinished steel. Standard Oil had a monopoly of pipeline transportation and the Armours of refrigerator cars, placing competitors at an enormous disadvantage. The monopoly elements were strengthened by discriminatory agreements with the railroads; Standard Oil systematically used this method, acquiring large stock interests in railroads to invigorate its influence. Both "unfair" competition and the monopoly elements were an abandonment of efficiency as the means of waging the competitive struggle. All three concerns were built up by reinvestment of profits, not with the money of out-

side investors. This is as significant of concentration as technical-economic efficiency, which itself yielded the great profits (involving exclusive exploitation of new inventions and processes) whose reinvestment enlarged the scale of production. Although Carnegie and Armour started with money made in other ventures, their enterprises were built up with reinvested profits, the direct capitalization of surplus value. The original capital of Standard Oil was \$1,000,000 (much of it earlier oil profits), and not one penny of new capital was thereafter invested. The masters of concentrated concerns were essentially industrial capitalists, whatever their origins; they were identified with one enterprise, responsible for it and active in its affairs, although management was increasingly functionalized and performed by employees. And all of the masters sweated labor, drove after more and more surplus value, crushed unionism. Concentration gave terrific control over labor. The Knights of Labor declared a boycott against Armour products in 1886, and Carnegie Steel is inseparably associated with the ferocious breaking of the Homestead Strike in 1892.

While industrial concentration usually results in greater efficiency, it has definite limits as a means of overcoming competition and raising profits. More efficient productive equipment costs money, as do price wars; the new equipment, moreover, comes into general use, competitors adopt still more efficient methods of production, and the rate of profit moves downward. Where competitors are small and numerous, they may be killed off; but the survivors, who become stronger, cannot be as easily exterminated. Concentration makes competition more destructive and unprofitable. While Carnegie Steel was the dominant factor in the industry, other enterprises, partly by concentration and partly by combination, had become almost as powerful. By 1900, the iron and steel industry was on the verge of a most destructive competitive war; all the more so as Carnegie's rivals were identified with great financial interests, particularly the Morgans. The threat was overcome by *combination*, by merging the rivals into the United States Steel Corporation. The combination was not, however, formed by industrial capitalists but by financial capitalists, by promoters and bankers. It marked the retirement of Carnegie, the most powerful industrial capitalist; United States Steel was dominated by the financial overlords of the House of Morgan.

There had been combinations before 1898; but their number was limited and they had been formed primarily by industrial capitalists. In some cases, however, there was active participation by promoters and bankers, whose profits were large. Formation of the Standard Dis-

tilling and Distributing Company, the Whisky Trust, yielded \$250,000 in stock to the underwriters for every \$100,000 cash advanced to buy plants, and another \$150,000 to the promoters.<sup>3</sup> After 1898 promoters' profits became a decisive factor. A series of combinations in the iron and steel industry, in 1898-1900, netted the promoters nearly \$100 million in profits. United States Steel paid the Morgan syndicate a "commission" of \$62,500,000, in addition to large amounts of common stock issued as bonus with preferred for property or cash.<sup>4</sup> From now on the profits of promotion (a charge upon prospective surplus value) were a major source of income for the rapidly developing financial oligarchy.

Considerations of increasing efficiency were *not* dominant in combination. On the contrary, efficiency was usually sacrificed by the inclusion in combinations of obsolete, inefficient, or unnecessary plants. Where, in general, industrial concentration *destroyed* competitors by increasing efficiency, combination *absorbed* competitors, who usually were willingly absorbed because they received huge profits from the overcapitalization of the new enterprises. Combination aimed to control competition and prices, to check the fall in the rate of profit by limiting competition and so "earn" monopoly profits. According to one bourgeois economist: "Least influential of all was the expectation of reducing costs. The large proportion of trusts formed which accepted a loose form of organization indicates that reduction of costs was not the dominant objective. Many consolidations acquired inefficient plants and clearly relied more on buying out competitors or killing them off by resort to unfair methods of competition than on driving them out by lower prices based on lower costs."<sup>5</sup> Monopolist combinations were made possible by previous industrial concentration, and they promoted concentration; but their emphasis was financial, not industrial, recapitalizing combinations on the basis of prospective monopoly profits. Their tendency, one of the elements of capitalist decline, was to retard the development of efficiency, although (another contradiction of capitalist production), combinations developed new forms of competition; this forced efforts to increase efficiency because of the downward tendency of the rate of profit and resulted in more and larger combinations.

By 1904, there were 440 great American trusts, with a capitalization of \$20,379 million; one-third of the capitalization was in seven combinations, over which towered the United States Steel Corporation.<sup>6</sup> Trustification grew in manufactures and in mining, on the railroads and in municipal traction.

Two important developments accompanied the combination move-

ment: the multiplication of stockholders and the centralization of financial control over corporate industry. Combinations, mainly to pay the huge profits of promoters and former owners, needed large amounts of new capital, which could be raised only by selling masses of stock to the general public. Ownership was no longer vested in the active industrial capitalist, but in a mass of investors; ownership and management were separated, while control was usurped by financial capitalists. Many of the older industrial capitalists became financial capitalists. Armour acquired large interests in railroads, banks, and insurance companies. In the 1890's the Rockefeller oligarchy became a group of financial capitalists, with far-flung interests in all sorts of enterprises, active speculators and promoters on a large scale. They typified the fusion of industrial and banking capital: with the huge cash resources of Standard Oil the Rockefellers went into banking; in cooperation with James Stillman they built up the National City Bank of New York, which engaged actively in promotion, speculation, and investment banking. At the same time banking, particularly investment banking, moved toward more direct participation in industry. For the banks were no longer mere intermediaries who mobilized the nation's savings for the use of industry, they were rapidly becoming the masters of industry. The separation of ownership and management did not vest control in management but in financial capitalists and the banks which they controlled or with which they were in "community of interest." Commercial banks became increasingly investment institutions; when this was prohibited by law, the banks organized investment affiliates. And financial control of industry was increasingly institutionalized in the banks, including private investment banking houses. They acquired control of the resources of insurance companies and used them for investment and promotion purposes. Investment banking houses in turn acquired control of banks (and insurance companies) to facilitate their operations. The "money power," with its control of investment resources and credit, imposed its dominion over trustified industry. By 1912, 180 individuals representing eighteen investment banking houses, commercial banks, and trust companies held 746 interlocking directorships in 134 corporations with total capitalization or resources of \$25,325 million. The most powerful group, the House of Morgan, its affiliate, the First National Bank, and its ally, the Standard Oil National City Bank, held 341 directorships in 112 dominant corporations with total capitalization or resources of \$22,245 million, distributed as follows:



Thirty-four banks and trust companies: resources, \$2,679 million, 13% of all banking resources.

Ten insurance companies: resources, \$2,293 million, 57% of all insurance resources.

Thirty-two railroads: capitalization, \$11,784 million; mileage, 150,000.

Twenty-four industrial and commercial combinations: capitalization, \$3,339 million.

Twelve public utility companies: capitalization, \$2,150 million.<sup>7</sup>

This fusion of industrial and banking capital, which thrust power into the hands of a financial oligarchy operating mainly with the money of others, increasingly dominated capitalist production. The oligarchy did not merely participate in combinations, it ruled ruthlessly. The system was one of private property without direct ownership and responsibility, without the control of ownership; financial capitalists garnered their largest profits by plundering stockholders, by violating the "rights" of private property. And the combinations and their financial overlords were ruthless in their exploitation of labor; only on the railroads was unionism able to establish itself successfully. . . .

Combination and the centralization of financial control proceeded steadily, in spite of the opposition of agrarian and middle class radicals, in the midst of clamor against the trusts and regulation by the government. Legislation against the trusts merely forced them to adopt new and, ironically, more impregnable forms.\* When courts declared illegal the original trustee device (whence the term "trust"), which combined corporations by assignment of stock and control to a board of trustees, it resulted in the development of the most successful method of combination, the holding company. For the holding company merely owns stock, and may combine and control corporations by ownership of a bare majority of their stock. The government's efforts to "smash" or "regulate" the trusts led them to adopt more clever means of evading the law (making the corporation lawyers indispensable and millionaires); public clamor was stilled with minor reforms, in the interest of trustified industry itself, and regulation ended in regularization, the consolidation of the power of the trusts. In the midst of the struggle

\* As in the case of the "due process" clause in the constitutional amendment intended to protect the Negro's rights, which was instead transformed into a bulwark of the "rights" of corporate property, the anti-trust acts were used against the workers, who supported the middle class and agrarian radicals in the demand for legislation against the trusts. Labor unions were increasingly considered by the judiciary as "combinations in restraint of trade." Because of its economic and political weight, the capitalist class transforms concessions, wrung from it by other classes, into new means of domination and oppression.



against the trusts, in 1907, the Aluminum Company of America was organized: the one perfect monopoly, with almost unlimited control over sources of raw materials, manufactures, and distribution. In 1911, the United States Supreme Court "dissolved" the holding company trust, Standard Oil, and the operating company trust, American Tobacco; but simultaneously, with its "rule of reason," the Court accepted and justified trustification. After dissolution, Standard Oil was still under common control; the separate companies, instead of specialized concerns, became more fully integrated, combining production, refining, and distribution. If Standard's monopoly control was lessened, it was not a result of the Court's decision but of the enormous growth of the oil industry due to the automobile. The needs and patriotic hysteria of the World War were exploited by the trusts to consolidate their control over industry. Trust magnates, formerly denounced as criminals and "undesirable citizens," blossomed forth as \$1-a-year heroes to "make the world safe for democracy" (meanwhile protecting their own interests and the interests of their class). And in 1920 came the final legal victory of the trusts: the Supreme Court decision denying the government's petition to dissolve the United States Steel Corporation. The Steel Trust, said the Court, six to three, was "not monopoly, but concentration of efforts with resultant economies and benefits."<sup>8</sup>

Concentration and combination now proceeded on an unprecedented scale. Trusts again strengthened their control in the depression of 1921-22 (one of the sweet uses of capitalist adversity), and made new conquests in the ensuing period of prosperity. Never were there as many mergers; the number of firms which disappeared through mergers rose from 760 in 1920 to 1,245 in 1929; disappearances were 140% higher in 1930 than in 1922.<sup>9</sup> Industrial concentration was unusually active, stimulated by the upswing in the output of capital goods because of the growth of old and new industries and of mass production for mass markets, on the basis of increasingly larger masses of fixed capital required in modern industry. Concentration was especially marked in the newer industries, which do not usually repeat the small-scale phases of the older industries: they adopt the newer technology and large-scale production at the start (and are usually promoted by financial capitalists). Profits were high, and a large part of them was reinvested in more efficient equipment and plant extensions. But the higher composition of capital, excess capacity, and intensified competition forced down the rate of profit. This led to the introduction of more efficient equipment to raise the productivity of labor and to more industrial concentration, either by enlarging the plants of a particular enterprise

or by consolidating formerly independent plants. But because of the restriction of markets, the greater the concentration and efficiency, the greater and more menacing was competition. For concentration, as in the earlier stages, was still determined primarily by technical-economic efficiency, the production of more goods at lower cost and their sale at lower prices; this meant a fall in the rate of profit because of intensified excess capacity and competition. Hence a strengthening of the movement toward monopolist combination, to control production, markets, and prices.\* Combinations, however, went beyond this purpose, and became involved with the purely financial and speculative manipulations of the financial oligarchy. As, under the conditions of monopoly capitalism, the production of financial and speculative profits is increasingly more important than the production of goods, combination increasingly outstrips its technical-economic basis in industrial concentration and efficiency: becomes more and more subordinate to the predatory purposes of the financial oligarchy. Innumerable mergers, reorganizations, and combinations had no other aim than the profits of promotion and speculation. In the case of an automobile company, whose private family ownership was transformed into "public" ownership, recapitalization yielded the bankers profits of \$15,000,000; the Van Sweringen mergers and reorganizations, an evasion of government regulation, yielded profits of over \$100 million, \$23,933,000 from one transaction in 1929; one small airplane merger promoted by the National City Company, investment affiliate of the National City Bank, in addition to the bank's profit of \$2,499,000, netted large profits for "close friends, officers, and key men" who sold their stock on a rising market.<sup>10</sup> Economic efficiency and corporate safety were sacrificed by combination, especially where the main purpose was to inflate values on the stock exchange or to consolidate the control of financial oligarchs. One of the most striking examples was the stupendous and fraudulent Insull combination in the public utility field: it yielded enormous profits to its promoters and favored "insiders" (including politicians); and it crumbled easily under the impact of depression.

The "abuses" of combination were condemned by "liberal" economists, who consider the abuses as independent categories and not as

\* Of the British amalgamation movement in the early post-war years, G. C. Allen, *British Industries and Their Organization* (1932), p. 296, writes: "The main impulses behind the movement were the wish to ensure markets and supplies and the hope of controlling prices." In later years the rationalization movement, both in Britain and Germany, stressed industrial concentration and efficiency; but it included "financial rationalization," *i.e.*, combination and the centralization of financial control.

inseparable accompaniments of monopoly capitalism. One of them said early in 1929:

"Mergers have not proved, and are not likely to be, a cure-all for excess capacity, overproduction, or cut-throat competition, or a royal road to exceptionally large profits in any field. . . . They have to depend to-day mainly upon their potential superiority in efficiency to control or dominate the market. While such superior efficiency has been achieved in some fields, it has not been demonstrated in every instance. . . . Many mergers that have been promoted by financial interests in recent years have been based upon exaggerated hopes or uninformed calculations of cost reduction and market control, and have disappointed investors. . . . If the merger movement is going on so strongly to-day, it is chiefly because the widespread ignorance of fundamental business conditions and the fantastic security markets based upon this ignorance have offered an exceptional opportunity to unload contingent securities upon the general public."<sup>11</sup>

Thus the "liberal" economist persists in separating economic categories from their capitalist social relations. Combinations sacrifice efficiency? Of course, for efficiency contributes to excess capacity and competition, forcing down the rate of profit; monopolist combinations aim to overcome them. They are not overcome? That is more proof of how hopelessly capitalist production is entangled in its contradictions and antagonisms. Investors are disappointed? Naturally; their losses are one condition of the profits of the financial oligarchs. Monopolist combinations may violate economic efficiency, cheat investors, and aggravate contradictions; but they promote, and this is the decisive factor, the profits and control of the financial oligarchy, which dominates monopoly capitalism: an indication of constantly greater parasitism and decay.

The increasing concentration of industry and centralization of financial control more than justify the analysis and prediction made by Marx.\* One aspect of industrial concentration and combination is the

\* "The continual retransformation of surplus value into capital displays itself as a steady growth of the capital engaged in the process of production. This, in turn, becomes the foundation of an increase in the scale of production and of the accompanying methods of increasing the productivity of labor and of bringing about an accelerated production of surplus value. . . . As the mass of wealth which functions as capital increases, there goes on an increasing concentration of that wealth in the hands of individual capitalists, with a resultant widening of the basis of large-scale production. . . . Accumulation presents itself, on the one hand, as increasing concentration of the means of production and of command over labor; and, on the other, as the mutual repulsion of many individual capitals. This splitting-up of social capital into a number of individual capitals is coun-

growth of corporations. In 1929, while only 101,815 manufacturing plants out of 210,945 were under corporate ownership or control, they employed 89.9% of the workers and produced 92.1% of all manufactures. Plants with an output of \$1,000,000 up, less than 6% of the total, employed 58.2% of the workers and had 69.2% of the output.<sup>12</sup> Industrial concentration, in terms of single plants, was as follows:

Plants with 501 or more workers, numbering 2,718, employed 3,336,980 or 37.8% of the workers.

Plants with 101 to 500 workers, numbering 14,035, employed 2,920,185 or 33% of the workers.

Plants with 51 to 100 workers, numbering 12,467, employed 891,671 or 10.1% of the workers.

All other plants, numbering 181,739, employed 689,897 or 19.1% of the workers; of these smaller plants, 95,767 employed only one to five workers.<sup>13</sup>

In the first category are the plants of such industrial giants as the United States Steel Corporation, employing (in prosperity!) over 250,000 workers. In the fourth category are petty producers, mainly non-corporate, 125,559 of whom reported, in 1924, profits of \$380 million, an average of only \$3,000.<sup>14</sup>

The single plant statistics do not, however, give a complete picture of industrial concentration, as many of the plants are units of larger corporate enterprises. Concentration is not measured alone by the size of single plants; it may, and this was particularly marked in 1923-29, concentrate and integrate plants by means of common ownership, management, and control. Thus, in 1929, 8,246 multiplant groups employed 48.4% of the workers and produced 54.3% of the total output of manufactures.<sup>15</sup> But multiplant groups, while measuring

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teracted by their attraction. The latter is not simply a concentration of means of production and command over labor, a concentration identical with accumulation. It is the concentration of already formed capitals, the destruction of their individual independence, the expropriation of capitalist by capitalist, the transformation of many small capitals into a few large ones. The process is distinguished from simple accumulation by this, that it involves nothing more than a change in the distribution of the capitals that already exist and are already at work. . . . Here we have centralization in contradistinction to accumulation and concentration. . . . It is possible for vast amounts of capital to be concentrated into one hand because comparatively small amounts of capital are withdrawn from a number of individual hands. In any given branch of industry centralization would have reached its extreme limit if all the capitals in this industry were fused into one. . . . A growing concentration of capitals (accompanied by a growing number of capitalists, though not to the same extent) is one of the material requirements of capitalist production as well as one of the results produced by it." Karl Marx, *Capital*, v. I, pp. 689-92; v. III, p. 257.



industrial concentration and integration, the basis of combination, do not measure the centralization of corporate control. This appears more fully in the distribution of net income. In 1929, 1,299 manufacturing corporations, mainly large combinations, 1.3% of the corporations engaged in manufactures, received 75.8% of the net income:<sup>16</sup> a centralization of control much greater than industrial concentration.

TABLE I  
*Concentration of Corporate Income, 1919-29*

YEAR	NUMBER OF CORPORATIONS *	PERCENT OF ALL CORPORATIONS	PERCENT OF ALL NET INCOME
1919	996	0.29	48.4
1923	1,026	0.26	47.9
1924	901	0.21	48.3
1925	1,113	0.26	51.9
1926	1,097	0.24	54.1
1927	1,042	0.22	51.6
1928	1,238	0.25	55.9
1929	1,349	0.26	60.1

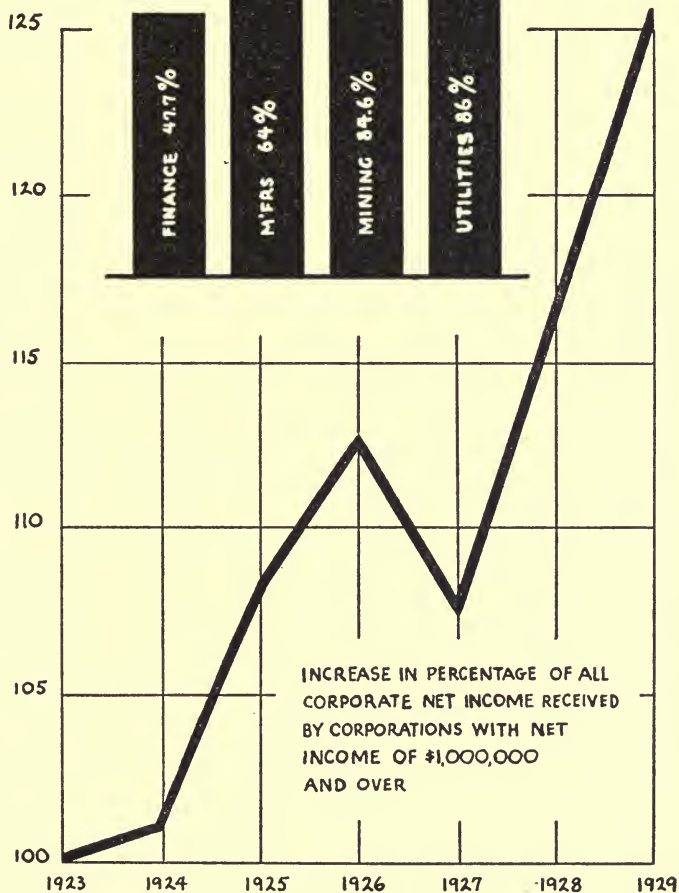
\* Corporations with net income of \$1,000,000 up.

Source: Computed from corporation reports in Bureau of Internal Revenue, *Statistics of Income* for the respective years.

Nor is this centralization of control limited to manufactures. In 1929, 1,314 corporations, 0.27% of *all* corporations, had assets of \$147,697 million, 44% of all corporate assets; capital stock of \$48,522 million, 44.2% of all capital stock; and surplus of \$29,188 million, 57.5% of all corporate surplus.<sup>17</sup> Still larger was the share in corporate net income of these giant combinations of capital, because of their monopoly advantages; in 1929, 1,349 of them, only 0.26% of all corporations, received 60.1% of total net income (Table I). Centralization of control is underestimated by the statistics: net income of the larger combinations does not include all the income of their subsidiaries, many of which must file separate income-tax reports; combinations, moreover, tend to have larger bonded indebtedness than small corporations, and the high interest payments are not included in net income. In 1929, 238 corporations making consolidated reports covering from six to 286 subsidiaries for each corporation, reported net income of \$4,148 million, or 35.6% of all net income. Concentration of profits and centralization of corporate control increased steadily in 1923-29: the number of corporate giants rose from 1,026 to 1,349, although they remained constant as a proportion of all corporations, and their share of net income



PERCENTAGE OF ALL CORPORATE  
NET INCOME RECEIVED BY  
CORPORATIONS WITH NET  
INCOME OF \$1,000,000  
AND OVER ~ 1929



rose from 47.9% to 60.1%. Concentration and centralization are overwhelming.

Under these conditions of centralization of control in monopolist combinations, the small producer and other petty enterprisers are a negligible economic factor. In 1929, 228,475 small non-corporate enterprises of all types reported profits of \$1,836 million, an average of only \$8,000; roughly three-quarters of the total profits were derived from trade and services.<sup>18</sup> The essential element in the old middle class, the small producer, is no more a factor in capitalist production, while the "new" middle class is dominated by the managerial employees of corporate enterprise.\* This is why the struggle against the trusts ended in 1923-29.

Combination centralizes control of economic life beyond the limits of industrial concentration. Monopolist combinations may unite a series of independent producing plants; engage in all stages of production from raw materials to final manufacturing and marketing; manufacture a series of different products; or combine totally unrelated enterprises merely for the profits of financial exploitation and control. An indication of the rapid growth of giant combinations in the post-war period is the fact that where in 1919 there were only seven corporations with assets of \$1,000 million up, combined assets \$18,847 million, in 1931 there were twenty-three, combined assets \$43,126 million,<sup>19</sup> *one-seventh* of all corporate assets. Acceleration was marked. The assets of the 200 largest non-banking corporations grew from \$26,000 million

\* Marx, in blasting the "philosophy" of Malthus, who held out to the workers the inducement that they might rise in the world, said in *Theorien über den Mehrwert*, v. III, pp. 59-60: "The highest hope of the profound thinker, Malthus, which he himself regards as more or less utopian, is that the middle class should grow and the proletariat (which is employed) become a relatively smaller part (even if it grows absolutely) of the whole population. That is in fact the course of bourgeois society." Part of this is quoted by Hans Speier, "The Salaried Employee," *Social Research*, February, 1934, p. 124, to prove that Marx made "contradictory statements" about the disappearance of the middle class. There is no contradiction. Marx prophesied the doom of the middle class of small producers. The doom is fulfilled. Economically, the "class" of small producers is now helpless, unimportant in the shadow of the massive power of concentrated corporate capital; numerically, although they have grown, the small producers have shrunk to insignificance relatively to the working class. Marx never prophesied the doom of the elements which make up the "new" middle class; on the contrary, although he never analyzed the subject fully, because he died after writing only a few pages of his analysis of classes in *Capital*, Marx clearly indicates that he foresaw the growth of the "new" middle class. This is not really a class in the full economic sense, but an aggregation of diverse groups standing between the workers and the capitalists. Once the term middle class included the whole bourgeoisie, a class standing between the masses and the ruling aristocracy; now it includes only the lower bourgeois groups.

in 1909 to \$81,000 million in 1929, an average yearly rate of growth of 5.4%, compared with 3.6% for all other corporations; but from 1924 to 1928 the average yearly rate of growth in the assets of the largest corporations was 7.7%, compared with only 2.6% for all other corporations.<sup>20</sup> The economic power of monopolist combinations grows faster than production or corporate wealth in general.

Concentration and combination develop unevenly in the different fields of industry, but everywhere they tend to be dominant (Table II), with the tendency for them to become still more dominant.

TABLE II  
*Centralization of Corporate Control, 1929*

INDUSTRY	NUMBER OF CORPORATIONS *	NET INCOME (millions)	PERCENT OF ALL NET INCOME
Manufactures	627	\$3,338	64.0
Mining	65	278	84.6
Public Utilities	230	1,805	86.0
Trade	93	316	27.5
Service	31	108	34.4
Finance	283	1,048	47.7
Total	1,329	\$6,893	60.5

\* Corporations with net income of \$1,000,000 up.

Source: Computed from corporation reports in Bureau of Internal Revenue, *Statistics of Income*, 1929. Mining includes quarrying, natural gas, and oil; public utilities includes transportation and electric power; service includes amusements, hotels, and professional services; finance includes banks, insurance companies, brokers, and real estate.

The unevenness reflects the general unevenness of capitalist development, a fruitful source of contradictions and antagonisms, expressing the planless and exploiting character of capitalist production. But everywhere monopolist combinations, alone or in agreement with others, wield measurable control over production, markets, and prices. While this appears clearly enough in the general statistics, it appears still more clearly in particular fields of industry.

In manufactures 627 giant corporations received 64% of the net income. In addition, these monopolist combinations control many other subsidiary plants directly and indirectly: many "independent" plants are dependent upon the giants for their markets. Concentration and combination are most marked in heavy industry, the basis of modern economic life. Six companies in 1930 controlled 75% of the steel making capacity, compared with only 58.9% in 1920. United States

Steel and Bethlehem Steel alone had assets of over \$3,000 million. What coke plants are not owned or controlled by the iron and steel companies are in the power of the gas utilities, whose control is centralized in a few monopolist gas and electric holding companies. Electrical manufacturing is practically a monopoly of three corporations working in harmony and bound together by the financial power of the House of Morgan—General Electric, Westinghouse, and Western Electric, with combined capital stock in 1929 of \$506 million, in addition to stockholdings of \$243 million in other electrical manufacturing enterprises and power and light companies. Two giants, with assets of over \$2,000 million, dominate the automobile industry. In 1930, four companies produced 70% of all rubber tires and a large proportion of other rubber goods. The Allied Chemical and Dye Corporation, which, through political manipulations and for a song, acquired the German patents expropriated during the World War, is the dominant combination in the chemical industry. The E. I. du Pont de Nemours Company, with assets of \$986 million in 1929, produces an extraordinary variety of chemical products, and has in addition large interests in munitions and automobiles. Concentration is high in pulp paper manufacture, with its great masses of fixed capital, and so is combination, the companies owning forests, power plants, and newspapers (to control orders); one company in 1929 had assets of \$767 million. The Aluminum Company of America has an almost air-tight international monopoly, owning bauxite mines and aluminum plants in many countries. Although the monopoly of Standard Oil was lessened, primarily by the enormous expansion of the industry, renewed concentration and combination has been going on actively. In 1930, seventeen companies had 80% of the operating refinery capacity, 61% being held by seven companies. The Standard Oil group is still dominant, for it controlled, in 1926, 73% of the pipeline transportation facilities and marketed 45% of motor oil. Although the Radio Corporation of America was "dissolved" in 1932, it still masters the industry; Westinghouse and General Electric disposed of their Radio stock, to their own stockholders, but community of interest is maintained by the Morgans, the financial overlords of the three corporations. Eight companies, including du Pont Rayon and the Viscose Company, control rayon production. One company controls agricultural machinery, one company boot and shoe machinery, three companies aviation products, five companies over one-fourth of the flour milling output.<sup>21</sup> In every field of manufactures, heavy and light, a similar condition of monopolist domination prevails.

In mining, 65 great corporations received 84.6% of the net income. This does not, however, tell the whole story, for the control of strategic natural resources is a decisive aspect of monopoly capitalism. In 1922, two companies controlled over half of the iron ore reserves, four companies nearly half the copper reserves, six companies about a third of the developed water power, eight companies over three-quarters of the anthracite coal reserves, thirty companies over a third of the immediate bituminous coal reserves, and thirty companies one-eighth of the petroleum reserves. Almost as great was the concentration of production. In 1929, fourteen iron mining enterprises produced 46% of the output; fourteen copper companies employed 72.5% of the workers; 118 bituminous coal companies produced 59.8% of the output. This concentration of power over natural resources was much greater because many of the separate companies are merely dependents in the system of centralization of financial control. Concentration has since increased, moreover; thus, in 1931, a merger of the Phelps Dodge Corporation and the Arizona Mining Company resulted in the new combination, with assets of \$370 million, becoming the second largest producer of copper in the United States.<sup>22</sup>

The greatest concentration and centralization prevail in public utilities, because of three factors: the element of "natural monopoly," the great masses of fixed capital required, and the tremendous development of the holding company as a means of centralizing financial control. In 1929, the telephone trust, the American Telephone and Telegraph Company, had assets of \$2,477 million. Six railroad combinations had combined assets of \$9,546 million. The Van Sweringen system, by means of a series of holding companies with combined investments of \$519 million, controlled 28,631 miles of railroads, in complete defiance of regulation by the Interstate Commerce Commission and its plans for unification. In the six years 1923-28, 3,933 electric power companies merged or were acquired by other companies; the number of "independent" systems decreased from 125 to twenty-two. The United Corporation, formed in 1929 by the House of Morgan and affiliated interests, augmented an already great centralization of financial control, a combine of combinations; in 1931, with assets in excess of \$600 million, United dominated, by means of stock ownership in subsidiary holding companies, underlying power properties with assets of \$5,459 million. Before this, in 1925, five combinations controlled 46.9% of the output of electricity, 10.7% by the giant Electric Bond and Share Company, an affiliate of the General Electric Company.<sup>23</sup> The formation of United Corporation, the subsequent breakdown of



the Insull empire, and other developments resulted in a redistribution and greater centralization of control.

Concentration and centralization appear comparatively small in trade and service. This is particularly so in service, which is largely personal; yet even here the trend is away from petty individual enterprise. Hotels are dominated by chain systems. In 1926, 5,000 out of 20,000 moving picture theatres were owned or operated by a few large producers and distributors, and the proportion has since grown. The "free" professions are increasingly dependent upon corporate enterprise. In 1929, chain-store systems in retail trade did a combined business of \$10,771 million, or 21.5% of the total (compared with probably 5% in 1920); nearly one-half of the chain business was in the hands of 321 national chains. The Great Atlantic and Pacific Tea Company, with 15,737 stores, increased its sales from \$200 million in 1922 to over \$1,000 million in 1929. Chain stores have invaded all retail fields; they made 31% of all grocery sales, 27.7% of apparel sales, 30.8% of general merchandise sales, 19.5% of furniture sales, and 33% of gasoline station sales. (Gasoline chains are owned mainly by the great oil companies.) Growth of the chain stores forced independent store-keepers to fight fire with fire; in 1929, 60,000 independents were organized in "voluntary chains," with one-third of the independents doing 65% of the business.<sup>24</sup> Even the surviving petty enterprises of the middle class are becoming "collective"! This concentration and centralization in trade and service, which were once considered the final bulwark of petty individual capitalist enterprise, is of enormous significance. Developments in management, accounting, and statistical control have made all types of enterprise capable of large-scale corporate organization, breaking down former limitations. It is another objective element of socialism. . . .

Concentration and centralization in finance is even greater than appears in the fact that 283 financial corporations, only 0.21% of the total, received 47.7% of the net income. The picture is obscured by the existence of thousands of petty brokers and "independent" banks, all, however, dominated by the great financial institutions. In 1932, six life insurance companies owned 69% of total insurance assets, and ten more owned another 13%;<sup>25</sup> these giants wield an enormous financial influence. The large number of small banks (steadily decreasing since 1920) seems to indicate the existence of a "democratic" banking system in comparison with the oligarchic system in other

highly capitalist countries; but, in fact, American banking is dominated by the financial oligarchy.\*

The control of industry by monopolist combinations is augmented by the community of interests of intercorporate stockholdings and interlocking directorates. Intercorporate dividends rose from \$870 million in 1923 to \$2,593 million in 1929,<sup>26</sup> representing mainly an increase in stock ownership and influence over corporations by monopolist combinations, holding companies, and financial institutions. In some cases a combination is specifically organized to unify particular interests: United Corporation was a concentration of the interests of other combinations; the Radio Corporation of America, which dominates radio manufacturing and transmission, represented (until the dissolution) the patent monopoly and other interests of the General Electric Company, the Westinghouse Electric and Manufacturing Company, and the American Telephone and Telegraph Company. And every monopolist combination is represented on the directorates of other corporations; this appears from the number of directorships held by the directors of the following combinations:

United States Steel 174, General Motors 167, Radio Corporation of America 232, United Corporation 77, General Electric 218, International Harvester 77, Anaconda Copper 164, American Telephone and Telegraph 226, E. I. du Pont de Nemours 96, International Paper and Power 174, Bethlehem Steel 198, United Fruit 197, Goodrich Rubber 85, Aluminum Company of America 149, Armour and Company 173, American Smelting and Refining 179, Pennsylvania Railroad 241, Consolidated Gas 195, Standard Oil Company of New Jersey 41, New York Central Railroad 306.<sup>27</sup>

Some of these interlocking directorships are personal business affiliations, others are directorships in subsidiaries, still others are manifestations of community of interest; all of them represent centralization of corporate power. It is partly an expression of economic interdependence, an objective socialization of production; but this progressive development becomes the basis for the erection of a predatory empire ruled over by the financial oligarchy.

While the apologists speak of "control" over monopolist combinations, their power is augmented by the NRA, whose program is an immense cartellization of industry. Where in Europe before the World War, especially in Germany, government encouraged the

\* This subject is discussed more fully in Chapter XXI, "Monopoly and Finance Capital."

formation of cartels but did not participate,\* the American government under the NRA both encourages and participates actively (e.g. RFC loans to industry, government representation on the cartel governing boards, the code authorities). There are four essential elements of the cartel: Elimination or modification of competition, the fixing of prices, restriction of production, and allotment of sales quotas or trading areas. All these elements appear directly or indirectly, openly or in disguised form, in most of the codes. The element of restriction of production is accepted with particular enthusiasm. Listen to a "liberal" member of the NRA:

"Industrialists will tell you frankly that their aim is to set up codes under which they can break even when operating plants at 35% of capacity and make a good profit at 50%. The combination of fixed prices, controlled production, and the licensing of new machinery and plants, they feel will bring this about. One industry, which had been losing money since 1923, was able, through advancing prices, to make huge profits in 1933. Now this same industry is asking for the right to license new equipment and otherwise control production. Another industry, with an amazing profit record in 1933, asks to be allowed to buy up and scrap the excess plant capacity of the industry."<sup>28</sup>

The monopoly policy of the NRA is a continuation of previous developments: of "trust busting" giving place to regulation and of the relaxation of all anti-trust laws in 1923-29. Both the policy and the developments express the dominant economic power of trustified industry, the inevitability of monopoly capitalism. Price-fixing and the restriction of production *must* favor the great corporations,† which, moreover, dominate the codes and the NRA itself. Small businessmen

\* European governments now participate. The pre-fascist governments in Germany took part in the trustification movement, particularly in the formation of the steel trust. France encourages trustification with legislation and public money. According to the *New York Times*, February 9, 1934, the British government is promoting a merger of North Atlantic shipping interests, the Treasury to provide the new trust up to £1,500,000 for working capital and £8,000,000 for the construction of giant liners. The "organization" of industry by fascist governments is nothing but cartellization or trustification on an enormous scale, with brutal emphasis on one of the major aspects of monopolist combination: suppression of the workers.

† Restriction of production in agriculture also favors concentration. "Smaller crops and fewer farms is the government program in all its ramifications. This will certainly relieve the small farmer—of his livelihood. To the large plantation owner this program is more than welcome. He has everything to gain and nothing to lose from a program which protects the price of *his* cotton by removing the small farmer from production. . . . We find 800,000 families, involving about 5,000,000 men, women, and

moan and protest, the government speaks of "helping" them with loans, and General Hugh Johnson makes the pledge: "Certainty of protection against monopoly control and oppression of small enterprise."<sup>29</sup> But the philosophy and practice of Niraism, an expression of monopoly capitalism and its decline, *must* strengthen the great combinations. Still the small businessmen moan and protest. They object most strenuously to minimum wages, for wages are a larger item of costs among them than among the great enterprises. According to the report of the Advisory Review Board on NRA Codes (the Darrow board), "codes are developing a monopolist trend and are doing injury to small industrialists and businessmen." The report was denounced by the embattled chiefs of the NRA. According to the Federal Trade Commission, several provisions in the electrical industry code "tend to eliminate and oppress small enterprises, discriminate against them, and thus promote monopolies." The Commission also sharply criticized the code for the iron and steel industry: the code strengthens the monopolist combinations, it is used to justify practices prohibited by the Commission as opposed to fair competition, and it oppresses small enterprises. The code authority, which is composed of the directors of the Iron and Steel Institute, is governed by plural voting based upon the amount of sales, and is consequently dominated by two or three large enterprises.<sup>30</sup> Of the oil code, one observer writes:

"The industry, or so it is contended, will discipline itself. The new arrangement provides for price-fixing by the industry, or rather by the dominant major companies, instead of by a public agency. It encourages centralization of control of the industry in the hands of relatively few companies. It slights the interests of the consuming public and affords no protection to small enterprises. The major companies can in effect dictate the terms upon which independent gasoline distributors and others may do business. . . . Nine of the financially strongest companies have the power of life and death over the pool which is to 'maintain and support proper relationships of gasoline prices.'" The code fosters monopoly, declared the small operators and refiners in a memorial to Congress: "The proration and fixed price ruling of the code administration makes it possible for the larger companies to obtain more than their fair share of available petroleum

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children, who are in danger of losing their means of existence. It is probable that not all of these will be actually released. It is certain that a large number of them will be." Webster Powell and Addison T. Cutler, "Tightening the Cotton Belt," *Harpers*, February, 1934, pp. 315-17.



trade." These are also the sentiments of small operators in bituminous coal, in shipping, of small enterprisers in general.<sup>31</sup>

The apologists of the NRA, who speak of "social control" over monopolist combinations, admit in so many words that the forms of a new social order are clashing with the older social relations of production. They say "control" is for purposes of "social justice," of "redistributing" wealth, of "increasing" mass purchasing power. That is mere pretense; the program of state capitalism is to bolster up the old order, make it more workable; to manipulate the forms of the new social order to *prevent* that order from definitely emerging. For, in a decisive historical sense, monopoly capitalism is no longer capitalism. It is no longer capitalism where "collective" combinations of capital dominate industry, where ownership, management, and control are separated, where the personal rights of property persist in an impersonal system of collective industrial property, where the state, presumably representing society, does not merely use political power to insure the domination of the ruling class, but intervenes economically to aid industry, using collective economic resources and action to insure the rights and income of individual ownership.

Within the objective *socialization* of production and *institutionalization* of management there is still private ownership and appropriation, competition and the clash of personal property interests, making impossible the planful management and regulation of industry. These contradictory elements are strengthened by the NRA and state capitalism, which cling to the older social relations of production. The whole social-economic situation is one of *transition*, whose only progressive outcome is socialism, a revolutionary act liberating production from its capitalist fetters and making possible a new social order. But state capitalism tries to "freeze" the transition: it restores neither the older competitive capitalism, with its free play of economic forces, nor does it complete the transition toward the new social order. Hence, neither one thing nor the other, Niraism and state capitalism aggravate all the contradictions and antagonisms of capitalist production. This means more instability, transition converted into disintegration. The attempt to "stabilize" disintegration: *that* is state capitalism (and, still more, fascism). And it necessarily is *monopoly state capitalism*, dominated by the economic and social weight of monopolist combinations *and the social relations of production out of which their power arises*. It is the strengthening of monopoly and finance capital and their predatory domination of society.



## Monopoly and Finance Capital

MONOPOLY capitalism has two interlocking aspects: separation of ownership, management, and control; usurpation of control by the financial oligarchy. Industrial concentration and the centralization of financial control increasingly transform the social capital into finance capital, liquid, intangible, mobile. This capital is mobilized and manipulated by the oligarchy and the financial institutions with which it is identified, and makes them the masters of industry and society.

Bourgeois economists, particularly those of the "institutional" variety, recognize the separation of ownership and management. But this separation is only one aspect of monopoly capitalism; it is, moreover, involved with profound changes in class structure and class relations. The class aspect is decisive. The animus of the "institutional" approach is clear: *if* "professional" management is an independent category, then there may be a smooth, gradual, peaceful development toward a "new" society, meanwhile retaining the fundamental exploiting relations of capitalism. But management is not an independent category. It is separated neither from the underlying relations of capitalist production nor from the superstructural control of the financial oligarchy.

The good and the bad in the "institutional" approach is evident in the analysis of the subject by Gardiner C. Means, in *The Modern Corporation and Private Property*. After a comprehensive and convincing demonstration of how monopolist combinations have separated ownership and management, Means concludes:

"Under the corporate system, control over industrial wealth can be and is being exercised with a minimum of ownership interest. Conceivably it can be exercised without any such interest. Ownership of wealth without appreciable control and control of wealth without appreciable ownership appear to be the logical outcome of corporate development. This separation of functions forces us to recognize 'control' as something apart from ownership on the one hand and management on the other."<sup>1</sup>

This clear appreciation of control as independent of ownership and management is offset, however, by an unclear conception of *how* control is secured and exercised and by *whom*. Of the 200 largest non-

financial corporations, according to Means, 44% are controlled by management, 21% by legal devices, 23% by minority ownership, 5% by majority ownership, and 6% by complete private ownership (1% were in receivership).<sup>2</sup> Here, in a fundamental sense, ownership, either in its positive or negative aspects, is still made the deciding factor in control; the problem is considered wholly in *corporate* terms, not in terms of larger social and class relations. Who are the private owners? Only one, Henry Ford, is an active industrial capitalist. One group of owners are the estates of financial capitalists, with interests in other corporations. Another group is the Mellon oligarchy, with its ownership of the Aluminum Company of America, the Gulf Oil Corporation, and the Koppers Company; the Mellons are typical financial capitalists, whose far-flung interests include the domination of great banks. Who are the majority owners? One investment banking house; the estate of the Duke (tobacco) family, with typical widespread financial interests; one corporation controlled by financial capitalists; family owners, many of them identified with the financial oligarchy. Who are the minority owners? Estates of financial capitalists; other corporations controlling subsidiaries or affiliates; holding companies, such as the Van Sweringen Allegheny Corporation in railroads and the Electric Bond and Share Company in public utilities; financial oligarchs, the du Ponts and the Rockefellers. What are the legal devices? Voting trusts, non-voting stock, and holding companies, typical methods (particularly the holding company) used by financial capitalists to get control of corporations without any substantial investment of their own; among the combinations thus controlled are the Cities Service Company and the Morgan United Corporation. Management, according to Means, controls corporations with "no single important stock interest." But it is precisely these corporations, where ownership is most scattered, which come most easily under control of the financial oligarchs and their banking institutions. Who, in this case, make up management? Not the mass of managerial employees, but the officers and directors; most of them are financial capitalists, all of them are identified, by interlocking interests and directorates, with the institutional arrangements of financial control dominated by the oligarchy. The United States Steel Corporation, since its inception ruled by the House of Morgan, is considered to be under "management" control!

Some of the "management" corporations are ruled by particular oligarchs, others by community of interest among the oligarchs. And the dominant financial power *dominates*. For years the elder Morgan

ruled the New York, New Haven and Hartford Railroad (his policy of combination ruined the property). At an investigation, by the Interstate Commerce Commission, of the New Haven's affairs, Joseph Folk questioned the railroad's president, Charles S. Mellen, about a particular transaction:

FOLK: Why didn't you tell Mr. Morgan: "By what right did you buy that stock?"

[*Outburst of uproarious laughter from the lawyers present, convulsed by the idea of putting such a question to Morgan.*]

MELLEN [*smilingly*]: Well, it did not seem that that was just exactly the right way to approach Mr. Morgan.

To cut short discussion and opposition at New Haven board meetings, Morgan would fling his box of matches from him, smash his fist on the table, and say:

"Call a vote! Let's see where these gentlemen stand." They always stood where Morgan wanted them to stand. "I do not recall anything," said Mellen, "where Mr. Morgan was determined, emphatic, insistent—I recall no case in which he did not have his way."<sup>3</sup> The only difference to-day is that the financial dictatorship is not so personal, it is more oligarchic. . . .

Another aspect, which the "institutional" economists neglect, is that monopoly and finance capital mark a *new stage* of capitalism. Three stages may be distinguished in the development of capitalism (its basis remains unchanged: antagonism between wage labor and capital, production of surplus value and its conversion into capital):

1. Commercial capitalism, dominated by merchant or commercial capitalists, who were interested primarily in buying and selling and the necessary financial operations. Petty industry was carried on by craftsmen or small manufacturers, whose output was disposed of by the merchant capitalists. (Some of the great merchant capitalists, *e.g.*, the Fuggers, were identified with mining, the first form of large-scale capitalist enterprise, which contributed enormously to the technical-economic development of capitalism.) Unlike its ancestors in the medieval and ancient world, merchant capital was now bound up with the growth of a new, the capitalist, mode of production. "The merchant becomes an industrial capitalist, or rather, he lets the craftsmen, particularly the small rural producers, work for him, while the producer becomes a merchant and produces immediately on a large scale for commerce."<sup>4</sup> This was the stage of the commercial revolution.

2. Industrial capitalism, dominated by industrial capitalists, who participated personally in production and whose wealth was augmented

by the direct capitalization of surplus value, the reinvestment of profits. The commercial capitalist, who stimulated the development of the new mode of production, is thrust aside by the industrial capitalist. Expansion of the market makes necessary larger output, an enlarged scale of production, larger masses of fixed capital: production becomes greater, more organized, and dominant. Commercial capital and commerce itself are subordinated to industrial capital. The capitalist is both exploiter and constructive organizer of industry. Free competition measurably prevails. This was the stage of the technical-economic changes of the industrial revolution and their consolidation in the ensuing years.

3. Monopoly or finance capitalism, dominated by financial capitalists. Industry becomes increasingly large scale, requiring constantly greater masses of capital. Free competition is replaced by monopoly competition. Capital more and more assumes the money form, serving as capital only when put to use by other persons (or institutions) than its owners. Industrial concentration and combination separate ownership, management, and control. Management becomes an institutional function of employees. There is an immense socialization of industry, the objective basis of a new social order; but control is usurped by financial capitalists and the banks under their mastery. Owners become absentees, rentiers in one form or another, who merely receive the income of ownership. The capitalist is now a mere exploiter, as the organization and management of industry is an employee function. Except for the unimportant small producers who still survive, the industrial capitalist is no more. In the United States, where monopoly capitalism is most highly developed, the only important industrial capitalist is Henry Ford, who, however, has acquired considerable financial interests and in 1930 "bought into" the National City Bank.<sup>5</sup> (The Fords will either become financial capitalists or eventually lose control of their enterprise.) \* Both the commercial and industrial capitalists operated primarily with their own money; financial capitalists operate and secure control primarily with other people's money. The financial oligarchy, speculative, adventurous, wholly parasitic, dominates the capitalist class. This is the stage of the decline of capitalism.

\* André Citroën, the Henry Ford of France (with, however, more general interests), was overwhelmed by financial troubles engendered by the depression. After slashing wages and juggling with the social insurance funds of his employees, Citroën was forced to beg aid of the banks, whose reorganization of the automobile company took control away from him. *New York Times*, March 4, 1934.



The three stages overlap, elements of one appear or persist in the other, yet they are distinct, and the differences are of immense historical importance. Commercial and industrial capitalism were identified with the emergence and upswing of capitalist production, the progressive transformation of industry, performing the historical task of developing the objective forms of a new, the socialist, order. Monopoly capitalism is identified with decline, and with capitalist manipulation of the forms of a new social order to maintain the old—a manipulation whose only result, until the revolutionary intervention of the working class, must be social-economic decline and decay. . . .

The growth of industrial capitalism and its transformation into monopoly capitalism were accompanied by the growing magnitude and importance of money capital, which is separated from the function of capital itself. There is both an increase in the capital needs of large-scale industry and in the social wealth, which increasingly assumes the form of money capital. This capital is concentrated in the banks. Its sources are the funds of money capitalists and of industrial or commercial enterprises and the scattered savings of all classes of society. The bank's money capital is enormously augmented by credit, which is of constantly greater importance in capitalist production. (Credit, whether based on savings or not, is a command over social labor; it reveals clearly that appropriation of surplus value, of unpaid labor, is the source of profit, for credit represents neither the "saved" capital of the capitalist nor, much of it, the savings of anybody, but merely command over labor. At the same time, credit becomes the basis of speculation, fraud, intensified competition, and overproduction, creating disturbances and maladjustments.\* The social nature of credit is, however, one form of the objective transition toward a new mode of production, toward socialism.) Industry becomes constantly more dependent upon the money capital under control of the banks.

Industrial capital itself increasingly assumes the form of money capital. Industrial capital is bound up with the person of the industrial

\* Credit outstrips savings; this is necessarily a disturbing factor, as it encourages an unbalanced output of capital goods. But limiting credit to savings would solve no problems. For then the output of capital goods would be smaller, restricting employment and prosperity. And if new capital were based only on savings, there would still be maladjustments and disturbances, because the capital must yield profit, a deficiency in consumption would be created, and planlessness, competition, and speculation would still prevail: inevitably, for the final source of all maladjustments and disturbances is the capitalist drive for surplus value and its realization as profit and capital. Hence government "control" of banking and credit merely alters the forms and combinations of maladjustments and disturbances.



capitalist. But he is now replaced by stockholders, non-participating absentees, whose dividends are not essentially different from interest, except that they are more subject to fluctuations. (Even these fluctuations are considerably "smoothed" by the policy of corporations to pile up surplus and pay dividends when there are small or no profits.) Industrial capital in the form of stockholdings is almost as mobile as money capital: it moves from industry to industry and enterprise to enterprise; this is particularly true of the stockholdings of great financial capitalists, whose inside information tells them where the profits—and losses—are. There is a fusion of industrial and money capital; the forms merge into one form, finance capital, which is mobilized by the banks and the financial oligarchy.\*

Banking is transformed. Originally the primary function of banks was to make payments, to supply industry with the "commercial" capital to finance the distribution of goods (whence the name commercial banks). This type of bank was dominant when industry was small-scale and the merchant capitalist was the chief entrepreneurial factor. But even the earliest commercial banks carried on some investment operations, and during the nineteenth century these operations grew with the growth of large-scale industry and its fixed-capital needs. In England, direct investment banking tended to become a specialized function; on the Continent, however, commercial and investment banking was combined in the same institution. American investment banking arose in the 1830's–50's out of the import of capital, mainly to finance the construction of canals and railroads. As industrialism developed, the commercial banks, at first exclusively limited to mercantile operations, began to supply industry's growing needs for fixed capital. In the 1880's arose the trust company, whose phenomenal expansion paralleled that of corporate enterprise. The trust company combined commercial and investment banking with ordinary trust functions; it

\* "With the development of large-scale industry money [financial] capital, so far as it appears on the market, is not represented by some individual capitalist, not by the owner of this or that fraction of the capital on the market, but assumes more and more the character of an organized mass, which is far more subject to the control of the representatives of social capital, the bankers, than actual production is." Karl Marx, *Capital*, v. III, p. 433. "In proportion as banking develops and becomes concentrated in a small number of institutions, the banks grow from modest intermediaries into all-powerful monopolists having at their command almost all the money capital of all the capitalists and small businessmen, as well as the greater part of the means of production of a given country or in a number of countries. . . . A handful of monopolists controls all the operations, both commercial and financial, of capitalist society. . . . This transformation is one of the fundamental processes of the growing of capitalism into capitalist imperialism." V. I. Lenin, *Imperialism, the Highest Stage of Capitalism*, pp. 30, 34.

acted as fiscal agents for corporations and performed other services for them. (By acting as investment expert for non-active investors in corporations the trust company emphasized the separation of ownership and management and the growth of parasitism.) After the 1890's, the commercial banks engaged more and more extensively in investment operations, led by the National City Bank, under control of the Rockefellers. Private investment bankers, particularly the Morgans, did some commercial banking business and acquired control of commercial banks on a large scale to facilitate their underwriting operations. And all the great banks, commercial, investment, or trust, acquired control of insurance companies in order to manipulate their vast resources, which were mercilessly exploited and plundered. This process was accelerated after the World War. Whatever the theoretical or primary function of the commercial bank or trust company may be, their major operations are in fact of an investment banking character: indirectly, by investment in corporate securities, loans for fixed-capital purposes, and loans on new issues not yet absorbed by the investment market; directly, by the operations of security affiliates which engage in all sorts of investment banking. While the Banking Act of 1933 compels commercial banks to separate from their security affiliates, the stock of affiliates is sold to the banks' stockholders; interlocking directorates are prohibited, but community of interest is maintained. Moreover, the separation does not affect the indirect investment operations of commercial banks.

This integration of function is paralleled by concentration and combination. Banks have grown in size by concentration, by reinvestment of profits, and inner expansion of business. They have also grown by combination, by absorbing other banks or merging with them. Industrial monopoly is accompanied by banking monopoly. By 1912, thirty-four banks had one-eighth of total banking resources under their control. Concentration and combination were enormously augmented in the post-war period. An unprecedented number of failures and mergers reduced the number of banks from 30,812 in 1921 to 24,079 in 1930; in the following year another 2,000 disappeared. The large number of banks still seems to indicate existence of a "democratic" banking system in comparison with other highly developed capitalist countries, in Canada, Britain, Germany, Italy, and France, where a handful of monopolist banks control banking and industry itself (in Europe, the banks, by command of credit, participation in combinations, and interlocking directorates, institutionalize the centralization of financial control over industry). But of the 24,079 banks,

20,000 were in small towns and had an average capital of only \$40,000. In 1930, sixty-nine banks had resources of \$25,900 million, and another seventy-one banks had resources of \$5,100 million; these 140 banks, only 0.58% of the total, had 48.9% of total banking resources (excluding savings banks). Five of the giants—including Chase National, Guaranty Trust, and National City—had resources of \$9,073 million, 14.3% of commercial banking resources: a concentration probably six times as great as in 1912. Many “independent” banks, moreover, are members of chain systems; in 1929, 273 chains, organized by means of the holding company device (requiring a minimum of investment) controlled 1,858 banks with resources of \$13,000 million. There was concentration within the chains: twenty-eight of them were in control of \$5,538 million in resources, nearly one-half of the chain total. Final centralization of control was still greater. Chains are interlocked with the financial oligarchy. So are the giant banks. In 1929, three Morgan banks, Bankers Trust, Guaranty Trust, and First National, and the National City and Chase National had control or influence, by means of stock ownership and interlocking directorates,\* over other banks with resources of nearly \$20,000 million, almost one-third of total commercial banking resources. In addition, the five monopolist banks were interlocked with insurance companies with assets of \$12,500 million, three-fifths of the assets of all life and fire insurance companies.<sup>6</sup>

These monopolist combinations of banking capital, with enormous control over the money capital of society, are no longer mere intermediaries serving industry, they are the masters of industry. The mastery is strengthened by industrial combination, with its separation of ownership, management, and control. Monopolist banks become the dominant force in the centralization of financial control over industry, by the command of credit, the operations of security affiliates, and the interlocking of directorates. This appears clearly from the number of interlocking directorships held by banks in other financial, industrial, and utility corporations. Fifteen New York City banks held 1,762 such directorships in 1899, and 5,324 in 1931. In 1929, the three Morgan banks, Bankers Trust, Guaranty Trust, and First National held directorships in public utility companies with assets of \$8,000 million. (In addition, J. P. Morgan and Company were in direct control of United

\* The “money trust” investigation of 1912 led to the Clayton Act’s prohibition of interlocking directorates among banks, and particularly forbade private investment bankers to hold directorships in commercial banks. These prohibitions were generally disregarded, and later officially became a dead letter. A similar fate awaits the 1933 prohibition of commercial banks owning security affiliates.

Corporation, dominant holding company of underlying power companies with \$5,000 million in assets.) After its merger with the Harris Forbes Corporation in 1930, the Chase Security Corporation, affiliate of the Chase National Bank, held directorships (as well as owned stock) in utility companies with assets of \$5,105 million. Some or all of the five banking institutions held directorships in General Electric, Westinghouse, Radio Corporation, and American Telephone and Telegraph, which in turn had their own directors in most of the power companies. This is a tremendous unification of control over electrical manufacturing, the power and light industry, and electrical communications. The system is widespread. Thus, in 1930, the Irving Trust Company of New York held 346 interlocking directorships in other corporations, the First National Bank of Boston 754, the Mellon National Bank of Pittsburgh 179, the Philadelphia National Bank 348, the Continental Illinois Bank and Trust Company of Chicago 368, and the Union Trust Company of Cleveland 278.<sup>7</sup> The Morgan oligarchy and its allies represent the greatest centralization of financial control, as appears from their 1929 interlocking directorships:

J. P. Morgan and Company held directorships in industrial, utility, and financial corporations with assets of \$20,000 million.

The Morgan banks, Bankers Trust, Guaranty Trust, and First National held directorships in corporations with assets (less duplication) of \$52,000 million.

The Morgan allies, Chase National and National City, held directorships in corporations with assets (less duplication) of \$45,000 million.

The Morgan-Chase-City oligarchy, composed of 167 individuals, held over 2,450 interlocking directorships in corporations with assets (less duplication) of \$74,000 million, 22% of total corporate assets.<sup>8</sup>

This enormous centralization of financial control, infinitely greater than that revealed in 1912 by the "money trust" investigation, is an institutional mechanism; it operates through the banks, which are the fly-wheel of capitalist enterprise. Control of the mechanism is usurped by the financial oligarchy. There are the Morgans. And the du Ponts, who have far-flung industrial interests, and control, among other banks, the Irving Trust and Chemical National of New York. The Rockefellers, with personal wealth estimated in 1929 at from \$500 million to \$1,000 million, merge industrial and financial control; long dominant in the National City Bank, they shifted in 1929-30 to the enlarged Chase National Bank. The Mellons own two banks with resources of \$488 million, direct interests in corporations with assets of \$9,718 million, and interlocking directorships in scores of other corporations.<sup>9</sup>



A handful of financial oligarchs control the monopolist combinations of industrial and banking capital, the most decisive portions of social capital; they control, in one concentrated institutional mass, the use of savings and credit, the mobilization of investment capital, and the great corporations in which most of the capital is invested. It is the dictatorship of finance capital.

The basis of the dictatorship of finance capital is the constructive socialization of production and the "social bookkeeping" performed by banks, the "organization" of capitalism. But this "organization" is entangled with all the social relations of capitalist production; it necessarily develops into contradictory and antagonistic forms. The financial oligarchy exploits the socialization of production and the "bookkeeping" of the banks for its own purposes. The constructive developments of capitalism are converted into their predatory opposites, provide new means for exploiting the producers, the workers and farmers. Monopolist combinations intensify the exploitation of labor, maintain high prices, and crush the farmers by subordinating agriculture to industry (instead of merging them in a new social-economic synthesis). Banks encourage overexpansion, speculation, and risky enterprises, convert their constructive "bookkeeping" function into a source of maladjustments. Financial capitalists move from enterprise to enterprise, industry to industry, and country to country, seeking and extorting higher profits. All this is both result and negation of the constructive achievements out of which arises the predatory dictatorship of finance capital. Marx clearly foresaw the development, although it was merely emergent in his day:

"This is the abolition of the capitalist mode of production within capitalist production itself, a self-destructive contradiction, which represents on its face a mere phase of transition to a new form of production. It manifests its contradictory nature by its effects. It establishes a monopoly in certain spheres and thereby challenges the interference of the state. It reproduces a new aristocracy of finance, a new sort of parasites in the shape of promoters, speculators, and merely nominal directors; a whole system of swindling and cheating by means of corporation juggling, stock jobbing, and stock speculation. It is private production without the control of private property."<sup>10</sup>

Monopoly and finance capital multiply the contradictions and antagonisms of capitalist production. More thorough organization of industry is accompanied by more competition and disturbances. The primary purpose of monopoly is to suppress competition, to control prices and markets. Competition is suppressed, but only partly, tem-



porarily. It does not disappear, but assumes higher and aggravated forms.\*

The most effective form of price control, short of complete monopoly, is the cartel. "But such control," one bourgeois economist admits, "is scarcely ever fully achieved. Even the most closely organized syndicate must leave a marginal field where competition prevails; this marginal competition delimits the area dominated by the syndicate and affects its policy. In the majority of cases the cartels cannot go beyond a rather slight mitigation of the competitive struggle. And yet a price war and the grievous losses which it entails in industries with large fixed capital investments can be avoided only by combination. Karl Marx was right beyond doubt in insisting that a tendency toward monopoly is inherent in modern technology. All loosely organized cartels are the forerunners of more rigid forms of combination."<sup>11</sup>

Monopolist combinations seldom exercise *complete* monopoly. The gigantic United States Steel Corporation controls only 40% of the industry; competition flares up periodically, although four monopolist combinations are dominant. Competition is particularly effective in the case of smaller concerns using the newest and most efficient equipment: a higher rate of profit is "earned." General Motors and the Ford Motor Company dominate the automobile industry, yet they wage ruthless war upon each other, and competition is aggravated by the sniping of independents. Ford once had a monopoly of the low-price field, but competition forced his 50% share of the total market down to 20% in 1932; some of the business went to independents, General Motors got most of it.<sup>12</sup> In addition to waging war on Ford, General Motors organized an aviation subsidiary and "cashed in" on the profits of newer enterprises and competition. In spite of its dominant monop-

\* "As capitalist production develops, the minimal size of the individual capital grows; the size that is requisite to carry on business under normal conditions. The lesser capitalists, therefore, crowd into spheres of production which large-scale industry has not yet fully annexed. In these fields competition rages in direct proportion to the magnitude of the competing capitals." Marx, *Capital*, v. I, p. 691. "When monopoly appears in *certain* branches of production it increases and intensifies the chaos proper to capitalist production *as a whole*. . . . Monopolies, which have sprung from free competition, do not eliminate it, but exist alongside of it and over it, thereby giving rise to a number of very acute and bitter antagonisms, points of friction, and conflicts. Monopoly is the transition from capitalism to a higher order." Lenin, *Imperialism*, p. 80. "When a certain branch of industry is monopolized, competition with outsiders and rival cartels and trusts at home does not cease, and a struggle for shares in production and sales goes on within the cartel. It is safe to say that as there is no competition without monopolies, so there is no monopoly without competition." R. Piotrowski, *Cartels and Trusts* (1933), p. 365.

olist position, the Radio Corporation of America must share part of the market with independents, and competition is intense. The Standard Oil monopoly did not endure; in spite of renewed concentration and combination, many savage competitive battles have been waged in recent years. Not even a complete monopoly like the Aluminum Company of America is immune. When Andrew Mellon was secretary of the Treasury, efforts were made to produce alunite aluminum, which might have broken the Aluminum Company's monopoly of bauxite. While "Mellon succeeded, by devious means, in completely throttling alunite competition," the threat may revive.<sup>13</sup> It is rarely possible to monopolize a whole industry; all the combinations can do is dominate by strategic strength and agreements. The resulting control of competition, markets, and prices is unstable. For it depends upon conditions which are frequently upset by inner contradictions and antagonisms, by the tendency of the rate of profit to fall. Then competition breaks out savagely and agreements become scraps of paper. Combinations now use the same tricks against each other that they use against independents: denial of supplies, price cutting, and banking pressure, all means to get a larger share of the market and higher profits.

To overcome these limitations of monopolist combinations, the financial oligarchy develops community of interest among them by interlocking directorates and the centralization of financial control. This is only partly successful. A particular combination must show profits, by aggressive competition if necessary: the rate of profit is an inexorable driving force. When bankers reorganize a company (bankruptcy does not force large concerns out of business, because of their great masses of fixed capital) they undersell competitors: by scaling down capital claims, the reorganized company's competitive strength is invigorated. Financial oligarchs, moreover, while they cooperate, are split up into rival groups. In 1931, the Morgans and Rockefellers interlocked some of their utility interests: the Standard Oil Company of New Jersey acquired a 30% interest in the gas-pipe lines of the Columbia system, dominated by United Corporation. Yet two years later, the Chairman of the Chase National Bank, both the bank and himself parts of the Rockefeller oligarchy, urged bank reforms which struck directly at the Morgans. (When J. P. Morgan and Company "crack the whip *too much*," according to one commentator, there is a little revolt.)<sup>14</sup> The oligarchs encourage competition, if it means the possibility of higher profits, and the formation of new enterprises in fields where monopoly profits are inviting. This is stimulated by the ad-

venturous and speculative character of finance capital the superabundance and surplus of available capital, the tendency of the rate of profit to fall, and the fact that new enterprises may have the advantage of higher technical-economic efficiency and lower overhead costs. Monopolist combinations only *relatively* and *temporarily* suppress competition; there may be comparative peace for considerable periods, but eventually competition flares up in the destructive battles of giants.

While 1,300 monopolist combinations dominate American industry, there *are* 475,000 other corporations in control of roughly 40% of industry. Among them competition rages continuously and furiously. The competition is aggravated by the prevalence of monopolist combinations. They exploit small-scale industry by forcing it to pay high prices for supplies or by invading its markets. Monopoly limits investment opportunities in the fields it dominates; in any event, investment is open only to large capitals. This forces large masses of capital into non-monopolist fields of enterprise. Monopoly capitalism is accompanied by accelerated accumulation of relatively surplus capital, pressing for profitable investment; this capital flows particularly into new industries or into fields not yet dominated by monopolist combinations, and there intensifies competition. In 1919, only thirty producers were in the radio field; in the two years 1921–22, 5,000 new producers went into business, most of them being wiped out in a few years.<sup>15</sup> The drive to capture markets by enlarging output and lowering costs led to a condition of acute excess capacity: in 1929, one producer could have supplied the whole market demand. In order to survive, smaller concerns increase their capacity, made possible by the superabundance of capital; the inevitable increase in excess capacity sharpens competition, a competition made all the more destructive by the greater size of the concerns involved. The upflare of the “new competition” in 1923–29 was coincident with an unusually rapid growth of concentration and combination.

The advantages of large-scale enterprise are obvious: higher productivity of labor, standardization, elimination of waste and production of by-products, large financial resources, organized research, planning for long-time expansion, control of markets and prices, reduction of fluctuations in profits. But there are many serious disadvantages. The superiority of large-scale production itself is neither progressive nor absolute; beyond a certain point mere size becomes inefficient and unprofitable, unless offset by monopoly prices. But monopoly means combination beyond the limits of industrial concentration, and this tends to aggravate inefficiency. Since monopolist combinations are under the

control of finance capital, which is interested in the production (and concentration) of financial profits, *not* in the production of goods, combinations tend to exceed the most efficient size. In some cases the disadvantages are overcome by the holding company device, which decentralizes plant and local administration while centralizing financial control. Resulting gains in efficiency are offset by competition and predatory monopoly practices, particularly the overcapitalization of combinations, which tends to produce a fictitious but still disastrous fall in the rate of profit. In other cases, moreover, the holding company "unites" a hodge-podge of enterprises wholly regardless of efficiency, merely to secure promoters' profits, strive toward monopoly, or insure financial control. The disadvantages of large-scale enterprise invite and make possible, within limits, the frequently successful competition of smaller concerns—small, however, only in relation to the giant combinations. Recent technological changes (*e.g.*, electric power, higher productivity based on qualitative rather than quantitative elements in machinery) provide the means for smaller concerns to realize many of the advantages of large-scale production with lower overhead costs and a higher rate of profit; in addition, they are more flexible, more adaptable to market changes, and they can increase their size where necessary because of the superabundance of capital. The larger concerns redouble their efforts to get "a bigger slice of the consumer's dollar" by forcing the sale of old products or adding new products to their output. Alongside of these contradictions and antagonisms, competition is again aggravated by the growth of production for variety demands and markets. Finally, competition, itself aggravated by excess capacity, reacts and increases excess capacity; since markets are restricted by the restriction of mass consumption, competition becomes worse. The rate of profit moves downward. Desperately, capitalist enterprise tries all sorts of devices to limit production and competition in order to raise prices and profits. Trade associations and trade institutes tried to do legally what the anti-trust laws forbade, but they were not very successful. One of the main objectives of state capitalism, especially as expressed in the NRA, is the attempt to realize the primary aim of monopoly: to secure a higher, or at least a more stable, rate of profit, by means of restriction of production, limitation of competition, higher prices, and higher profits.

The NRA promotes both concentration and combination and the cartellization of industry. But competition is not eliminated, it is merely transformed. It crops up in the most unexpected manner. Thus, before the NRA codes, rayon competed with cotton textiles on a style



basis; minimum wages raised the costs of one more than the other, because cotton manufacturing needs more labor than rayon, making it possible for rayon to compete with cotton on the basis of style *and* price.<sup>16</sup> The NRA tends to inflame the "new competition" which was so disastrous in 1923-29, while simultaneously making it more difficult for the smaller producers to survive. This aspect of the situation has been thus described by the financial expert of the New York *Herald Tribune*.

"The NRA cartel idea may finally nullify itself because the cartellization of all industries merely serves to bring each industry into more direct competition with others in the effort to capture increasing portions of the national income. It cannot be stressed too emphatically that competition will remain just as strong under the NRA as before. It will merely take another form, and instead of being between units of an industry it will be between whole industries. With mercantile groups organized, manufacturers will meet organized resistance in any effort to advance prices at the expense of wholesale and retail outlets. Producers of basic materials will meet the same sort of resistance from manufacturers. Gains in income can only be made in other directions."<sup>17</sup>

This competition of industry against industry becomes all the greater under the conditions of capitalist decline, of mass unemployment, restricted markets, and lower profits. Nor will it be limited to industry against industry: competition will also flourish within an industry, in different but more savage forms, stimulating concentration and combination.

What happens to competition under monopoly capitalism is this: competition is transformed, assumes higher forms. It is no longer primarily the competition of small individual capitals, but of combined million-capitals. The area of competition is restricted, its intensity and destructive character sharpened. The capitalism of free competition, whose economic and class characteristics were petty individual enterprise and a comparatively independent class of small producers, was "free" only within the charmed circle of the possessors of capital and was limited by the unequal distribution and sizes of the competing capitals. Monopoly capitalism, whose economic and class characteristics are large-scale corporate enterprise, the decline of small capitalists, and the rule of finance capital, limits competition only by making it impossible for small capitals to arise and compete independently except in unimportant fields, and by limiting (but not eliminating) competi-



tion among the larger enterprises. There never was any "pure" free competition; there is no "pure" monopoly.

Monopoly capitalism practically destroys the economic significance of the old middle class of small producers (and small merchants).<sup>\*</sup> This destroys the material conditions underlying the petty-bourgeois ideals of economic individualism. "The field of operations for the independent owner-manager," according to an engineer economist, "will be steadily restricted . . . he will continue throughout to be a subordinate worker in a large corporate organization."<sup>18</sup> Ideals may persist beyond their economic basis, and the petty-bourgeois ideal of economic individualism still survives; but it is now merely an ideolog-

<sup>\*</sup> It is frequently argued that industrial concentration and monopoly create an economic crisis by destroying the small producers, the most important section of the middle class market. Until recently, however, this market tended to expand, not contract. Not all small producers defeated in the battle of competition were proletarianized, that is, deprived of all property and forced to become wage-workers. Some sold out to the larger enterprises and went into other businesses or retired, while others became executive or managerial employees in corporations. The expansion of industry, moreover, permitted new batches of small capitalists to arise. At the same time the middle class market grew because of growth among its other elements: technical, supervisory, and managerial employees in corporate industry, storekeepers, and professionals (not to mention the multiplication of parasitic occupations). Thus the "new" middle class, *i. e.*, all groups, exclusive of farmers, between the workers and the upper bourgeoisie, constituted a constantly greater part of the market, scoring, particularly in 1923-29, relatively much larger gains than the working class. That was, however, in the epoch of the upswing of capitalism; in the epoch of decline the situation is materially different. With the curve of production moving downward, defeated small producers are much more likely to be proletarianized, while the chances of new producers arising are slight: they now decrease in numbers as well as in economic significance. But the small producers are not the most important section of the middle class market, *which shrinks primarily because the working class market shrinks*, although not necessarily in the same proportion. The working class market shrinks because of disemployment and lower wages. Disemployment means a decrease in the production and realization of surplus value. Lower production throws many technical, supervisory, and managerial employees out of work. Disemployment and lower wages affect adversely the business of small storekeepers, whose customers are mainly workers. A serious fall in income and restriction of opportunity occur among that considerable part of professionals who answer calls for services from the workers. The economic crisis lessens school and college appropriations, resulting in widespread unemployment and salary cuts among teachers. Most of the members, the lower incomes, of the functional groups in the middle class are dependent upon prosperity among the workers: there is an economic identity of interest, not antagonism. (That is why the promise of fascism to improve, at the expense of the workers, the conditions of the middle class can benefit only small groups: conditions among the class as a whole must become worse.) Shrinkage in the middle class market is not produced directly by destruction of small capitalists; it is produced indirectly and primarily by capitalist decline and shrinkage of the working class market.

ical lag protecting the predatory financial capitalists, who suppress economic individualism and free competition and increasingly exploit labor. . . .

Monopoly can never be complete because *monopoly is profitable only if it is limited*. "The monopoly price of certain commodities," said Marx, "merely transfers a portion of the profit of the other producers of commodities to the commodities with a monopoly price. . . . They leave the boundaries of surplus value itself untouched. If a commodity with a monopoly price should enter into the necessary consumption of the worker, it would . . . be paid by a deduction from the real wages (that is, from the quantity of use values received by the worker for the same quantity of labor) and from the profits of other capitalists."<sup>19</sup> The limits of monopoly are thus described by a bourgeois economist of to-day:

"In a capitalist system monopolist industries reap their profits as parasites on free industries, *i.e.*, on industries that are not given to trustification or organization in cartels or syndicates. . . . Only such proportion of the monopoly profits can be ploughed back as will enable the monopolist to retain his maximum differential in his privileged field; investment of monopoly profits must take place in free industries."<sup>20</sup>

In addition, monopolist combinations exploit "free" industries (only relatively free, in process of development toward concentration, hence absorbing an increasing amount of capital goods) by means of monopoly prices. The exploitation is direct if the monopolist combinations sell supplies to the "free" industries. It is indirect if the monopoly prices are for consumption goods, for that limits the demand for non-monopoly goods. *Thus complete monopoly would nullify itself, make impossible monopoly prices and profits*. This is one reason why monopolist combinations are active in the export of capital and imperialism, for in economically undeveloped countries the "free" industries are still numerous. The limits of monopoly appear also from the fact that monopoly profits may be reaped at the expense of other monopolist combinations. The General Motors rate of profit rose from about 13% in 1922 to 31% in 1926-27, while the Ford rate fell from about 30% to a deficit; the du Pont rate of profit rose from about 5% in 1922 to 16% in 1927, while the rate of other large chemical companies was below that of 1920; the rate of profit of Goodyear Rubber and Tire rose considerably from 1922 to 1929, while the rate of General Tire and Rubber fell disastrously.<sup>21</sup> The masters of capitalist industry must prey upon one another. Hence the intensification of

competition, the aggravation of maladjustments and disturbances by monopoly capitalism.

The limits of monopoly and the general conditions of decline which it expresses enormously increase the importance of financial and speculative profits in the capitalist economy (Table III). In 1923-29,

TABLE III

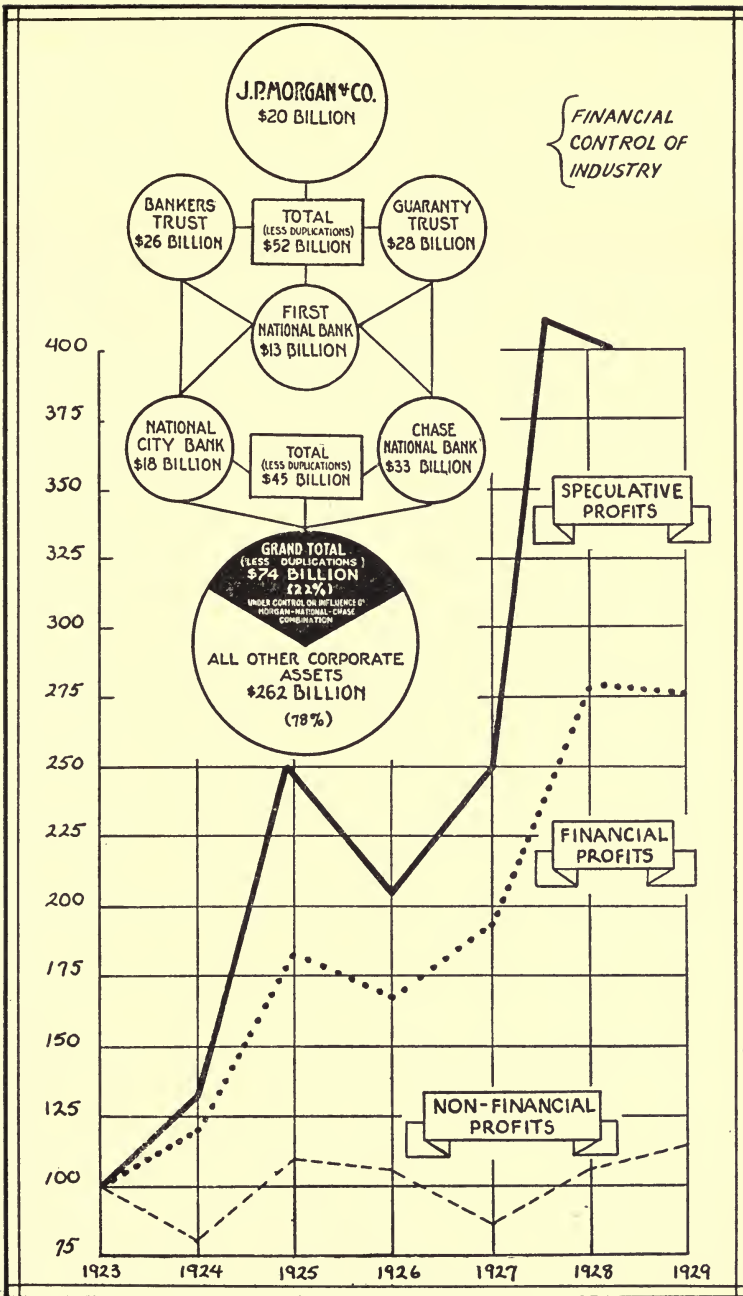
*Distribution of Financial, Non-Financial, and Speculative Profits,  
1923-29*

YEAR	FINANCIAL CORPORATIONS		OTHER CORPORATIONS		SPECULATIVE PROFITS	
	AMOUNT (millions)	INDEX	AMOUNT (millions)	INDEX	AMOUNT (millions)	INDEX
1923	\$879	100.0	\$4,948	100.0	\$1,172	100.0
1924	1,061	120.7	3,927	79.3	1,513	129.2
1925	1,610	183.2	5,361	108.4	2,932	250.6
1926	1,459	166.0	5,315	107.4	2,378	203.2
1927	1,687	191.9	4,193	84.7	2,894	247.4
1928	2,444	278.0	5,192	104.9	4,807	410.8
1929	2,438	277.3	5,645	114.1	4,684	400.3

Source: Computed from corporation and personal income reports in Bureau of Internal Revenue, *Statistics of Income* for the respective years.

while the profits of non-financial corporations were almost stationary, the profits of financial corporations were 177.3% higher in 1929 than in 1923, and speculative profits 300.3% higher. It is because of these conditions that the financial oligarchs use other people's money to speculate, to promote, to get control of combinations. One little method of making money used by the Morgans and the Insulls was to sell the stock of newly formed combinations to "friends" (political and financial) *below* the offering price: in one case, \$12 while the public paid \$27,<sup>22</sup> which yields an automatic profit of large dimensions. That is why the holding company \* is so beloved of the oligarchs. For the holding company, used to concentrate control of banks and industrial corporations, needs only a small investment to secure dominion over vast properties. This is done by piling holding company upon holding company; one, a utility holding company is *eleven times removed* from the underlying properties it dominates, whose

\* The holding company, of course, by massing industrial and financial power, is a tremendous weapon against labor. This is seldom, if ever mentioned, by American writers. They are more outspoken in England: "Do not big holding company organizations represent the means by which employers are going to provide a unified opposition to the more extravagant demands of labor?" A. J. Simons, *Holding Companies* (1927), p. 12.



XVII. THE DYNAMICS OF FINANCE CAPITAL.

assets of \$1,200 million are controlled by an investment of \$8,000,000. The holding company, in addition to other profits, makes its gains by extortionate service charges; the profit of one company from such charges ranged from 157% to 269%, while another company was disallowed "supervisory fees" of \$500,000 by the Federal Power Commission.<sup>23</sup> Sweet are the uses of monopoly control!

Increasing monopoly, under the conditions of capitalist decline, is accompanied by mass disemployment, lower production and realization of surplus value, a downward movement in the accumulation of capital. Larger profits now depend upon two factors: an immense lowering of mass standards of living and a more systematic plundering of one capitalist group by another. The struggle for a larger share of a diminishing mass of profits definitely affects the policy of state capitalism and, especially, fascism. For while fascism protects the system of private property as a whole, its origins and state policy (notably in Germany) are identified with the struggle for more profits and power of particular groups of capitalists, who use state power, including murder, to overcome their rivals.

Monopoly is the form of expression of the "organization" of capitalism. This "organization" assumes the same contradictory and antagonistic forms and has the same limits as monopoly itself. Yet the old revisionist socialists, led by Eduard Bernstein, insisted that capitalism was being "organized," imposing controls on cyclical fluctuations, modifying if not abolishing the class struggle. But "organized capitalism," which was monopoly capitalism and imperialism, led inexorably to the catastrophe of the World War. In the post-war period the theory was revived by another German socialist, Rudolf Hilferding; he argued that finance capital "means the transition from the capitalism of free competition to organized capitalism," with a "diminishing" of the instability of capitalist production, "milder crises, at least in their effects on the workers," and "less threatening" unemployment.<sup>24</sup> The answer was an increase in unemployment, in the surplus population, an unprecedentedly disastrous depression, and fascism. Both Bernstein and Hilferding merely repeated the arguments of bourgeois economists. One of them, in 1928, declared the cause of cyclical fluctuations was the older type of "innovation," of technical-economic change, by individual, competing capitalists, and concluded: "Innovation is not any more *typically* embodied in new firms, but goes on within the big trusts. It meets with much less friction. . . . Progress becomes 'automatized,' increasingly impersonal and decreasingly a matter of leadership and individual initiative. The only fundamental cause of



instability inherent in the capitalist system is losing in importance as time goes on, and may even be expected to disappear. . . . Capitalism is economically stable and ever gaining in stability.”<sup>25</sup> These arguments were especially plentiful in the United States in 1923–29. They were answered by the worst depression in American history.

The fundamental causes of capitalist instability are the antagonism between production and consumption and between old and new forms of production. Under the conditions of the decline of capitalism, they are aggravated by the downward tendency in the production and absorption of capital goods, the basis of capitalist prosperity. Hence instability *must* increase. And Nirraism? Monopoly state capitalism? They aim to unify, to organize capitalism, but their efforts are hopeless because of the underlying relations which impose limits upon monopoly. All that state capitalism does is to strengthen concentration and combination, to merge finance capital and the state, to *preserve* monopoly capitalism from collapse.

The fundamental contradiction of monopoly capitalism is this: it is neither free competition nor complete unification of industry. Hence monopoly capitalism retains most of the contradictions of free competition and generates new ones of its own. Most fundamental among the new contradictions is the retention, by monopoly (and state) capitalism, of the older social relations of production while the forms of a new, the socialist, mode of production are objectively fully developed. Hence monopoly capitalism and the dictatorship of finance capital multiply the contradictions and antagonisms of capitalist production and engender an economic decline. Capitalist production is the extension of contradictions and antagonisms on an enlarged scale, national and international, until they reach the breaking point.

## The Dynamics of Imperialism

THE enormous development of monopoly and finance capital in the United States after the World War was marked by an upswing in the export of capital and imperialism, which are inseparably interlocked with the underlying relations of monopoly capitalism. While an economic decline appeared in European imperialism (and capitalism), American imperialism strengthened its economic basis, sank its roots deep into the national economy, and spread its predatory interests and power throughout the world.

The dynamics of imperialism are an intensified, concentrated, more violent expression of the dynamics of capitalist production itself, whose economic law of motion is the accumulation of capital. This involves efforts to prevent a fall in the rate of profit, to *raise* the rate. Both accumulation and the tendency of the rate of profit to fall are identified with the increasing concentration of industry and the centralization of financial control, the aggravation of competition in spite of monopolist combinations, and the sharpening of contradictions arising out of the antagonism between production and consumption. Accumulation of capital, the production and capitalization of surplus value, depends upon the expansion of industry and markets, and is inevitably accompanied by the growth of industrial concentration and monopolist combination. The basis of concentration is an increase in the scale of production, which greatly augments the output of goods. If markets grow sufficiently, the rate of profit may rise; if not, the rate tends to fall because of the results of excess capacity and competition. New markets, *foreign* markets, become imperative, particularly as limitation of mass consumption is aggravated by disproportionate development of separate branches of industry. The scramble for foreign markets includes the scramble for foreign sources of raw materials. Both require an investment of capital. The export of capital, as distinguished from the export of goods, acquires constantly greater importance, as direct investment in foreign enterprises grows. The synthesis of these developments is monopoly and finance capital, whose driving force is behind attempts to monopolize markets, raw materials, and investment opportunities. As concentration and combination grow, there is an exhaustion

(on a capitalist basis) of the inner long-time factors of expansion, resulting in a decreasing output and absorption of capital goods. Mass markets are still more limited. Excess capacity and surplus capital mount. The rate of profit threatens to fall disastrously. The outward thrust toward foreign outlets is strengthened.\* Speculation becomes more international. Capitalist production and foreign trade are more and more entangled with the economics of the export of capital and the politics of imperialism, with exploitation of the outer, the international, long-time factors of expansion. Monopoly capitalism and the exploitation of economically backward peoples are inseparable.

The export of capital and imperialism emphasize both the importance and the changing character of the world market in relation to the origin, development, and decline of capitalism. Foreign trade and colonialism were vital factors in the commercial revolution of the sixteenth and seventeenth centuries. Toward the end of the eighteenth century, however, the intrenched bourgeoisie began to revolt against colonialism, which was identified with feudal-mercantilist restriction of free enterprise and trade; for free competition was the basis of industrial capitalism. One expression of this reaction was the not very vigorous struggle Britain waged against the embattled colonists in the American revolutionary war. As Britain became the world's workshop, with a practical monopoly of the world market because of its highly developed industrial capitalism, the interest in colonialism waned. The major exports were consumption goods, especially textiles; the major aim was merely to trade, to sell dear and buy cheap. By the 1840's-50's, the dominant national sentiment, voiced even by future

\* "To the extent that foreign trade cheapens partly the elements of constant capital [equipment and materials] partly the necessities of life for which the variable capital [wages] is exchanged, it tends to raise the rate of profit by raising the rate of surplus value and lowering the value of constant capital. It exerts itself generally in this direction by permitting an expansion of the scale of production. . . . Capitals invested in foreign trade are in a position to yield a higher rate of profit, because they come in competition with commodities produced in other countries with lesser facilities of production, so that an advanced country is enabled to sell its goods above their value even when it sells them cheaper than the competing countries. . . . In the same way a manufacturer, who exploits a new invention before it has become general, undersells his competitors and yet sells his commodities above their individual values, that is to say, he exploits the specifically higher productive power of the labor employed by him as surplus value. By this means he secures a surplus profit. On the other hand, capitals invested in colonies, etc. may yield a higher rate of profit for the simple reason that the rate of profit is higher there on account of the backward development." Karl Marx, *Capital*, v. III, pp. 278-79.

aggressive imperialists like Disraeli, was that colonies were a millstone around Britain's neck.

Developments within the capitalist economy, however, were preparing the basis of a new colonialism. Not only was the scale of production growing and multiplying the output of goods, but the necessarily larger masses of fixed capital forced a constantly larger scale of production. The output of means of production, of equipment and materials, became increasingly important. Many of the newer raw materials could be secured only overseas; many older materials began to be imported as inner supplies approached exhaustion (e.g., English copper, lead, zinc, tin, and iron) or because foreign supplies were cheaper. As industrialism is a metal economy, and abundant sources of metals were mainly in economically undeveloped regions, the tendency was to get *control* of both ownership and production, which meant an export of capital. The production of industrial equipment was limited, tending to force down the rate of profit, by exclusive dependence upon home demand: foreign demand and industrialization were stimulated. This was particularly true in the case of railroads, whose materials and construction made great demands upon capital equipment and capital investment. Railroads played as great a part in the export of capital as they did in the inner accumulation of capital: most of the British capital invested overseas was in the railroads of the six continents. Construction of railroads and exploitation of mineral resources went hand in hand. The export of capital was different, however, from the mere export of goods, for returns on the capital invested in economically undeveloped countries depended upon their political stability. Hence political control was necessary. Industrial penetration, by destroying the older industries and expropriating peasants (or tribesmen) from the soil, aroused antagonisms and revolt. The tendency toward the monopoly of foreign markets and raw materials made the necessity of political control all the stronger, including non-colonial regions, emphasized by the increasing competition of the newer industrial nations. Instead of colonialism being abandoned, control of existing colonies was tightened and a scramble for new colonies ensued. (It was significant of the new colonialism that Spain could not hold on to its American colonies, primarily because of an inability to supply industrial products and capital. Portugal held on to some of its colonies only because of an imperialist alliance with Britain.) In addition, finance capital and monopoly penetrated also the more economically developed but still relatively backward nations, where it secured control of basic enter-

prises and raw materials, plundered the "free" industries and distorted industrialization.

The upswing of European capitalism after the 1860's, and particularly after the 1880's, was bound up with the export of capital and imperialism. Export of surplus goods and capital stimulated the output and absorption of capital goods, the basis of capitalist expansion. By the 1900's, as much as 25% of the national wealth of Britain and 15% of that of France was represented by foreign investments. The three major imperialist powers had a foreign stake of at least \$35,000 million; Britain, \$20,000 million, yielding a yearly income of \$900 million; France, \$10,000 million and an income of \$400 million; Germany, \$5,000 million (some estimates are higher) and an income of \$250 million.<sup>1</sup> The rate of profit tended to move upward. During the pre-war years, the rate of interest on British home investments, roughly an indication of the rate of profit, rose probably 30%, the most important cause being the export of capital.<sup>2</sup> In particular, the heavy export industries "earned" surplus profits, while the financial oligarchy, in control of the banks and monopolist combinations identified with imperialism, reaped an even richer harvest. But the elements of decline in imperialism appeared very clearly in its later stages. The higher rate of profit, and this becomes all the more marked in the epoch of the decline of capitalism, *was accompanied by a downward movement in the curve of production, an increase in unemployment, stationary real wages, and more unequal distribution of the national income.* Income from foreign investments increased much more rapidly than other forms of income. The heavy export industries were disproportionately developed in Britain, while other fields of home industry were neglected in favor of the surplus profits of overseas investment; in France, the national economy was practically stagnant. The upward movement in technical-economic efficiency began to flatten. (If this was less true in Germany, it was only because imperialism developed while inner industrialization was as yet not complete.) But these results, according to one bourgeois economist, writing early in 1914, are "no conclusive reason for a country trying to check the export of capital, because the injury to the amount of home output is likely to be more than compensated by the higher return presumably obtained on capital invested abroad."<sup>3</sup> The rate of profit *is* the compelling power of capitalist production.

As the export of capital became increasingly an export of the interest (or profits) on existing foreign investments, the elements of decline assumed more definite shape: for export of interest represents no home



production, employment, and wages, it merely piles up the capital claims of ownership. "To a larger extent every year," wrote J. A. Hobson in 1902, in his pioneer study of imperialism, "Great Britain is becoming a nation living upon tribute from abroad, and the classes who enjoy this tribute have an ever-increasing incentive to employ the public policy, the public purse, and the public force to extend the field of their private investments and to safeguard and improve their existing investments."<sup>4</sup> Economic stagnation and parasitism are characteristics of monopoly capitalism and imperialism. They were accompanied by the multiplication of rentiers and an increase in luxury production and in the occupations serving the well-to-do. Whole nations, especially France, acquired the character of rentiers. Just as a handful of monopolists exploited the nation, so a handful of monopolist nations exploited the world.

They spoke much of progress everlasting. But it was an illusion. It was based on the profits of imperialism, on the merciless exploitation of colonial and other economically backward peoples, the majority of the world's population. Financial oligarchs feasted on the profits. The middle class received some of the juicier crumbs, especially in the form of an export of technical, managerial, and clerical employees to work in foreign imperialist enterprises, and of minor officials to govern colonies. A bone or two was thrown to the upper layers of the working class, particularly the trade-union bureaucracy.\* For imperialists like Joseph Chamberlain and Cecil Rhodes, seeing the aggravation of imperialist rivalry and the possibility of war, aimed to create a broader social base for imperialism by "doing something" for the workers, which in practice included only certain groups of workers. It meant making the working class the defender of imperialism, with colonial and other economically backward peoples paying the price. All reformist programs, liberal and socialist, consciously or unconsciously depended upon the "progress" of imperialism for the gradual transition to "higher" things, to a "new" social order, including socialism itself.

\* "The receipt of monopolistically high profits by the capitalists of one of numerous branches of industry, of one of numerous countries, etc., makes it economically possible for them to bribe individual strata of the workers, and sometimes a fairly considerable minority of them, and win them to the side of the bourgeoisie of an industry or nation, against all the others. The intensification of antagonisms between imperialist nations for the partition of the world increases this tendency. And so there is created that bond between imperialism and opportunism, which revealed itself first and most clearly in England, owing to the fact that certain features of imperialist development were apparent there much earlier than in other countries." V. I. Lenin, *Imperialism, the Highest Stage of Capitalism*, pp. 113-14.

Although American imperialism was merely in its beginnings in 1900, Franklin H. Giddings, the sociologist, identified imperialism with progress, democracy, civilization, the interests of labor, and social reform, and concluded: "If, by any mistaken policy, it [the "energy" of the American people] is denied an outlet, it may discharge itself in anarchistic, socialistic, and other destructive modes that are likely to work incalculable mischief."<sup>5</sup>

But imperialist antagonisms became sharper and sharper, exploited older sentiments of national interest, and exploded in the catastrophe of the World War. Liberalism and moderate socialism rallied to the support of "their own" national imperialist governments. The illusion of progress everlasting was irretrievably shattered. . . .

American imperialism lagged behind the European, although concentration, combination, and finance capital were on the whole more highly developed in the United States than in Europe. This is one of the significant peculiarities of American capitalism. It was primarily due to what may be conveniently described as an *inner* imperialism; or, in other words, to conditions whose economics resembled those of the export of capital.

The economic relations of colonialism measurably existed between the more highly developed Northeastern regions and the inner continental areas. (The conquest of Texas and California had some of the political aspects of colonialism, although there was also an element of the slavery "imperialism" of the South.) In the earlier "colonial" stage, from the 1820's to the 1850's, the inner areas absorbed mainly settlers and industrial consumption goods in exchange for foodstuffs and raw materials: it was essentially a trading relation. In the later "colonial" stage, especially after the 1860's, the emphasis was on the absorption of capital goods and on industrialization, for the great areas could not be limited to agriculture. The highly industrial Northeastern states (comparable, in resources and economic development, with Britain and Northwestern Europe, which exploited other areas) exported capital and means of production and transport to the Western regions and seized their natural resources. This was not simply the earlier, more or less limited and general industrialization as it appeared in the nations of Europe: it was on a vastly greater scale, making it possible for more than one particular industrial center to arise, was dominated by finance capital operating from the Northeastern states, and assumed sectional forms and gave a sectional twist to class struggles and ideology, which are of real importance in American history. The struggle between agriculture and industry appeared as a struggle

between West and East; Western debtors, who were most active in the Populist revolts, owed money to Eastern financiers and investors, who also owned the railroads exploiting the farmers. Export of surplus goods and capital to the inner continental areas prevented a decided fall in the rate of profit, made possible a constantly greater output of capital goods. Monopolist combinations extended their control over *inner* markets and resources, and invested surplus profits in *American* branch plants as new industrial regions arose. Exploitation of immigrant (and Negro) workers was an aspect of these developments, roughly comparable to the British, German, and French importation and exploitation, after the 1890's, of large numbers of immigrants from Russia, Poland, Austria, Spain, and Italy.\* The real *outer* imperialism was only emergent at a time when, from the 1880's to 1910, it was being consolidated in the economy of the highly industrial nations of Europe.

The inner "export" of capital had general results similar to those of the outer variety. Highly industrial nations export goods and capital to colonial and other economically undeveloped regions. But these regions develop their own industries, either native or branch enterprises of foreign combinations. Markets are restricted and home industry adversely affected. The New England boot and shoe industry tended to decline because of the competition of new centers of production in the West. This was prevented, in the case of iron and steel, by the control of monopolist combinations. The Lancashire cotton textile industry declined because of the competition of new foreign centers of production; the New England industry began to decline, before the World War, because of the rise, after the 1890's, of an indigenous cotton textile industry in the Southern states. No comparable developments appeared *within* the nations of Europe, they appeared only as *between* these nations and aggravated the antagonisms of imperialism. The relative economic decline of New England and imperialist Britain (in both regions there was, in addition, a decline of agriculture) is extremely significant.

But these peculiarities of American development were over by 1910, when a real outer imperialism was definitely and aggressively in opera-

\* "In the United States, immigrants from Eastern and Southern Europe are engaged in the most poorly paid occupations, while American workers provide the highest percentage of foremen and of the better-paid workers. Imperialism has the tendency to create privileged sections even among the workers, and to separate them from the main proletarian masses." Lenin, *Imperialism*, p. 96. The earlier manifestations of this tendency were enormously strengthened by monopoly capitalism. To-day, because of capitalist decline and the increase in the surplus population, the doors are slammed shut in the faces of immigrants.

tion. Nor did they prevent the appearance, in the earlier years, of the substantial beginnings of imperialism. They were scattered, the expression primarily of particular combinations and enterprisers, but they moved inexorably toward larger institutional expression. . . . In the 1880's, an emergent imperialist policy was manifest: the Samoan adventure almost involved the United States, Britain, and Germany in war; combined rule of the island by the three was accompanied by the usual atrocities of colonial warfare. Congress was agitated by demands for a more aggressive foreign policy and a larger navy, and by opposition (including President Hayes) to the French building the Panama Canal. Most important of all, the emphasis on relations with Latin America changed from political to economic, expressed in proposals for a customs union directed against Europe, in line with the larger interests of capital in the United States, and eventually transformed the Monroe Doctrine. . . . By the 1890's, American capitalists were promoting railroads in Mexico and other Latin-American countries in competition with the British and the French; William R. Grace, the "Pirate of Peru," was exploiting that country's mineral resources, railroads, finances, and politics; and Minor C. Keith was creating the economic and political empire of the United Fruit Company in the Caribbeans (the blood of exploited native workers fertilized the bananas consumed in the United States). . . . Standard Oil spread its tentacles over the world, while another Rockefeller company, the Lake Superior Consolidated Mines (acquired by ruthless trickery and later absorbed by the United States Steel Corporation), owned iron mines in Cuba. So did Carnegie Steel and Bethlehem Steel. American mining interests in Cuba included manganese and nickel. . . . American capitalists secured asphalt concessions in Venezuela; when these were threatened, the State Department acted to protect "American rights." . . . The American Sugar Refining Company, the Sugar Trust, controlling 90% of the refining output in the United States, held substantial interests in Cuba through a subsidiary and the personal holdings of its master, H. O. Havemeyer. Mechanization of the sugar industry in Cuba compelled the import of American capital, which in 1896 amounted to \$30,000,000. . . . American capitalists, including Standard Oil interests, organized the American China Development Company to exploit coal mining and railroad concessions and industrial franchises. . . . The war began between American and British capital for control of international communications; it has since aroused extremely sharp antagonisms. After spreading a network of telegraphs and cables over Latin America in competition with the British, the Mexican Telegraph Company, organ-



ized and controlled by Americans, planned a Pacific cable to compete with the British. The House of Morgan became identified with the project, which secured Congressional support. One vice-admiral said: "It can easily be seen what an advantage this freedom of communication would prove in the great race for supremacy in China." . . . By 1900, \$500 million of American capital was invested abroad, including government loans (particularly Mexican). . . . An imperialist ideology was definitely being shaped, although it emphasized commercial more than financial interests, which was also true of the earlier beginnings of imperialism in Europe. In 1895, Henry Cabot Lodge said: "For the sake of our commercial supremacy in the Pacific we should control the Hawaiian Islands and maintain our influence in Samoa. Our immediate pecuniary interests in Cuba are very great. Free Cuba would mean an opportunity for American capital invited there by signal exemptions. But we have also a broader political interest in the fate of Cuba. She lies athwart the line which leads to the Nicaraguan Canal."<sup>6</sup>

Out of these beginnings of imperialism arose the Spanish-American War. Some historians argue that the war was not an imperialist one, because "our" immediate economic stake in Cuba was not very large. But that is mere economic determinism, a vulgarization of the materialist conception of history. For *immediate* economic interests seldom bulk very large and may even be violated in the interest of policy. It is the general drift and necessity of underlying class-economic forces which are decisive, and the *ideology* they create. Ideology is itself a social force. An active imperialist ideology was developing under the minor pressure of immediate economic development and the major pressure of the division of the world among the European powers, clarifying the aims of emergent American imperialism and preparing it for the future. This was the decisive factor in the Cuban intervention and the acquisition of a colonial empire in the Caribbean and the Pacific, while the war itself shaped imperialist objectives and ideology.\* One sociologist urged American conquest and control of the tropics for their "economic possibilities."<sup>7</sup> The war with Spain, according to Brooks Adams, who also identified imperialism with progress and reform, was "a link in a long chain of events which, when complete, would represent one of those memorable revolutions wherein civilizations pass from an old to a new equilibrium. Competition has entered a period of greater stress; and competition, in its acutest form, is war.

\* Another element in the Spanish-American War was the unrest of workers and farmers in the 1890's. A ruling class may resort to war to stifle social discontent. The American victory was a contributing factor in the overwhelming re-election of McKinley.



America has been irresistibly impelled to produce a large industrial surplus. Upon the existence of this surplus hinges the future, for the United States must provide sure and adequate outlets for her products or be in danger of gluts more dangerous to society than many panics such as 1873 and 1893. The laws of nature are immutable. Money will flow where it earns most return, and investments once made are always protected."<sup>8</sup> And the *Bankers' Magazine* said in 1900, driving home the logic of the Spanish war and of American participation, with European imperialist powers, in the suppression of the Boxer Chinese revolt:

"Nations whose citizens have large interests abroad must necessarily encounter difficulties, which may sometimes be settled by diplomacy, but which frequently can be overcome only by force of arms. The employment of armies naturally drifts into what is called conquest. The United States, having become a lender of its surplus resources, must follow the methods which such development requires, and it has the advantage of the experience of other nations."<sup>9</sup>

From 1900 to 1910, monopoly and finance capital tightened their grip upon the American economy, resulting in an accelerated growth of imperialism, although it did not become dominant. . . . Because of the backwash of inner imperialism and the absorption of surplus capital by the recapitalization of industry through trustification, which absorbed large masses of investment capital, the export of capital in the form of American purchase of foreign securities was almost negligible, although loans were floated for many Latin-American countries and for Britain, Japan, and Russia. . . . But direct investment abroad by monopolist combinations is also an export of capital; in fact, it is of primary importance, because it is most closely identified with efforts to monopolize markets, profitable enterprises, and natural resources. . . . Steel companies acquired mines in Chile and Brazil, and forced an agreement on world markets with European steel interests. . . . The United Fruit Company spread itself all over the Caribbeans, acquiring natural resources, building railroads and docks, making its own loans to governments. . . . General Electric invested capital in many parts of the world, competing with the British and the Germans in the creation and control of markets; it acquired large interests, particularly in Latin America, in light and power plants and in electrical communications. . . . So did, in their own lines, International Harvester and the meat packers. . . . Morgan-Hill efforts to extend the power of their Northwestern railroad system to Canada provoked charges that they were trying to get control of the country's railroads and mines. . . . American capital secured railroad concessions in

Mexico, Panama, and Bolivia. . . . The Guggenheims and other mining interests got increasing control of foreign mines, particularly in Mexico, Bolivia, Peru, and Chile. . . . Edward H. Harriman's aggressive struggle, in direct competition with European and Japanese imperialist interests, to secure railroad and mining concessions in China was actively backed up by the State Department. . . . Standard Oil, assuming greater international dimensions, fought bitterly with the British for control of world sources of petroleum. . . . Discovery of petroleum in Mexico led to more aggressive American penetration by the 1910's and another embittered clash with the British, involving Mexican politics and revolutions. . . . The monopolist combinations engaged in these imperialist struggles were associated with the great banks, which in many cases directly participated, particularly the National City Bank, whose acquisition of the National Bank of Haiti was followed by American military intervention. . . . Most significant of the rôle of finance capital in imperialism was the organization, in 1902, of the International Banking Corporation, which later became a subsidiary of the National City Bank. The International was a concentration, for imperialist purposes, of the most important factors in monopoly and finance capital: the National City Bank, Standard Oil, Harriman, and the Guggenheims, including a working alliance with the House of Morgan in the later struggles for loans and concessions in China. By 1910, the International had sixteen branches, in China, Japan, India, the Philippines, Mexico, Santo Domingo, and Panama. It was the most conscious financial force in stimulating the export of goods and capital, in securing control of foreign sources of raw materials, in unifying the scattered elements of developing American imperialism. . . . Still more conscious and unified was the political expression of imperialism, for the American government adopted an aggressive imperialist policy. . . . President Theodore Roosevelt definitely transformed the Monroe Doctrine into a weapon of imperialist aggression in Latin America; it was now intended to prevent economic, not merely political, penetration by the European powers. . . . Construction of the Panama Canal, an expression of imperialist policy, was accompanied by ruthless disregard of Colombian rights: "I took the Canal Zone," Roosevelt boasted, "and let the Congress debate." (Fraud tainted the purchase of the Canal rights from the French company, which was paid \$40,000,000 by the American government through the Morgans and other financial capitalists. The question was asked at the time: "Who got the money?" It has never been answered.) . . . Roosevelt used the Big Stick to enforce American financial and political

"rights" in the Caribbean republics, including military intervention and the imposition of protectorates. . . . The tendency was to convert Latin America into the colonial basis of American imperialism, embittering the clash with British, German, and French capital. . . . As the antagonisms of imperialism sharpened, they converged on China, which was bludgeoned into submission by the most brutal use of financial, diplomatic, and military force. After making the Monroe Doctrine a means of limiting the penetration of European capital in Latin America, the American government insisted on realization of the "open door" in the plundering of China. Trade was emphasized in the original "open door" doctrine of Secretary Hay. From the 1880's to the 1900's, the growth of large-scale industry, with its multiplication of goods, made foreign markets increasingly necessary. This was urged by all the great capitalists, the Carnegies, Rockefellers, Hills (James J. Hill wanted American domination of Asiatic markets so that his Western railroads might have more goods to transport). But foreign trade becomes, under modern conditions, entangled with the export of capital and imperialism. Markets are not free, they are under measurable control. "Spheres of influence," said Thomas W. Lamont, one of the Morgan partners, "served to divide up China commercially into almost water-tight compartments, and the nations like the United States which had no compartments could not do much trading." So the "open door" doctrine, its emphasis shifting from trade to investment, became the form of expression of American imperialist policy in China. . . . In 1909, an offensive was launched by the Taft Administration, which asked and received the cooperation of the House of Morgan, of the financial oligarchy. The government made demands upon the governments of China and the five powers for an equal share in Chinese loans, mining concessions, and railroad construction. The Morgans made similar demands upon the bankers of the powers. American "dollar diplomacy" won a substantial victory, resulting in a truce and a financial protectorate over China. . . . President Wilson made the bankers withdraw in 1913, but at the same time he strengthened imperialist policy in Latin America, opposing, *e. g.*, the granting of oil concessions to non-American interests as a menace to the Monroe Doctrine. . . . By 1913, American foreign investments amounted to \$2,500 million, mainly the direct investments of dominant combinations. While comparatively small, the investments represented *new* capital, not an export of interest; without them the relative economic decline in the period 1900-14 might have been more marked.<sup>10</sup>

American imperialism came into its own during the World War

and the post-war period, the development of an inherent tendency accelerated by the mishaps of European imperialism. Under pressure of a direct economic stake in the victory of the Allies (the war loans) and a larger imperialist stake in the issue of world power, the United States was thrust into the war. The war augmented industrial concentration and combination and the centralization of financial control. It also opened new foreign markets to American goods and capital, and geared industry to the export of capital on a large scale. Finance capital mobilized for world action. Shortly after the war, the House of Morgan organized the Foreign Finance Corporation, a concentration of financial interests including four Morgan banks, the National City Bank, and the Chase National Bank. Another concentration of financial forces was the formation by the Morgans, in 1922, of the Bank of Central and South America, with twenty-two branches. By 1926, eight American banks owned 107 foreign branches in the world's strategic centers, mainly in Latin America, of which the National City Bank owned seventy-three, including twenty-two owned by its subsidiary, the International Banking Corporation.<sup>11</sup> The struggle for control of markets and investment opportunities was waged everywhere, anyhow. American foreign investments (excluding inter-governmental loans) rose from \$2,625 million in 1914 to \$17,967 million in 1932, of which more than one-half represents the direct investments of monopolist combinations; foreign investments yielded, in 1920-29, an income of \$9,896 million.<sup>12</sup> The United States became the world's chief exporter of capital, imperialism a dominant and inseparable aspect of the American economy. Germany's foreign investments were wiped out (including expropriations by the Allies), French investments rose only slightly, those of the British remained stationary at \$20,000 million, and only Japan scored a marked increase. World power was practically thrust upon the United States, and it was not rejected.

The upswing of American prosperity in 1923-29 was invigorated by the export of capital, which, except for the later years, was mainly an export of *new* capital. But it simultaneously intensified the instability of capitalist production and prosperity. For the export of capital, the financial mechanism of imperialism, is both an expression and aggravation of the contradictions and antagonisms which assume extraordinarily acute forms under monopoly capitalism and imperialism:

1. Limitation of markets, because of the increasing disparity between production and consumption, accompanied by depressed standards of living among the masses. This reflects the inability of capitalism to balance production and consumption and to develop fully all the



forces of mass consumption. Competition is aggravated, prices may fall to unprofitable levels, and the rate of profit move downward. An increasing export of surplus goods becomes necessary. The instability of capitalist production is intensified. For the constant increase of exports makes the national economy dependent more and more upon fluctuations in the world market, and trade is inevitably entangled with imperialism because of colonial monopoly, spheres of influence, and other devices for the imperialist control of markets. The export of goods, moreover, tends to become subordinate to the export of capital and of interest on existing foreign investments; this is accompanied by a downward tendency in home production, which limits employment, wages, and mass consumption and makes markets still more limited.

2. Excess capacity, both cause and effect of limited markets and aggravated competition. The increasingly higher composition of capital and the relative or absolute fall in wages necessarily limit the mass markets for consumption goods. Excess capacity is augmented, as the disparity between production and consumption grows and limits the demand for consumption goods and capital goods. The rate of profit tends to move downward. It was estimated, in the pre-1929 days of prosperity, that American cotton mills should export 20% of their output to permit them to run at capacity.<sup>13</sup> The production of automobiles was marked by increasing excess capacity, yet the industry exported an average of 15.2% of its output in 1924-29.<sup>14</sup> An average of 10,000,000 tons of steel was available yearly for export, but only 20% was exported, making "excess capacity a continuous threat to the domestic price structure and to profits."<sup>15</sup> This condition was most threatening in the basic heavy industries, which were particularly aggressive in the drive for foreign markets. The drive becomes an aspect of imperialism because of the imperialist division of the world. But exports are merely an evasion of the problem of excess capacity, which can be solved only by balancing production and consumption, by the planned economy of socialism. As exports rise the scale of production is enlarged; the resulting changes in the composition of capital and their effects create still more excess capacity, particularly as new foreign centers of production arise. This is all the more disastrous as world markets change suddenly under the influence of competition or break down more than home markets under the impact of depression.

3. Surplus capital, which becomes increasingly larger as capitalist production approaches exhaustion of the inner long-time factors of expansion. In the decisive class-economic sense, surplus capital is an



absolute deprival of mass consumption, for it *represents capital which industry does not need and cannot use without disturbing results*. Hence it is the most fruitful source of capitalist instability. Surplus capital produces more excess capacity, more competition, more downward pressure on the rate of profit. If surplus capital is "distributed" in the form of higher wages, it is consumed and does not become capitalist claims upon wealth and income. If it is exported, it becomes capital or capital claims regardless of whether, and this is the beautiful thing from the capitalist angle, *the importing country spends the money on consumption goods or capital goods*: in either case the foreign owner of the capital receives his claims upon future production and income. Thus capital export makes possible a larger accumulation of capital, while it relieves the pressure of surplus capital on home industry and tends to raise the rate of profit. But this development assumes an antagonistic form: in the measure that the pressure is relieved and the rate of profit moves up, relative wages fall, markets are limited, and surplus capital arises anew, augmented by the income on foreign investments (which produces no corresponding home income). Export of capital becomes still more necessary. But as this is increasingly an export of interest on existing foreign investments, which is not identified with export of goods because it is not *new* capital, home production moves downward and the problem of surplus capital becomes more acute.

4. Monopoly, whose surplus profits are threatened by excess capacity and limited markets. Monopolist combinations are not immune to a serious fall in the rate of profit, because of the enlarged scale of production and monopoly competition. Combinations struggle aggressively for foreign markets. All industries need these markets; but in practice, owing to the barriers of tariffs and similar measures, only monopolist combinations as a rule are able to invade foreign markets. Exports are concentrated in the basic heavy industries. Where the barriers are insurmountable, combinations start their own plants in foreign countries. (In addition, foreign plants are established to take advantage of low-wage labor and of proximity to raw materials and markets.) In 1932, 711 American corporations owned 1,819 foreign branch plants, representing an invested capital of \$2,178 million (out of \$8,500 million of direct investments): \$1,033 million in manufactures and \$1,145 million in the production of raw materials. Limited as the number of companies was, the limitation of industries was still greater: \$529 million, or more than half the capital in manufactures, was invested in

plants making automobiles, electrical apparatus, industrial machinery, and other metal products.<sup>16</sup> All are industries dominated by monopolist combinations; and this is also true of mining. The outward thrust of combinations is not simply a search for new markets to absorb surplus goods, but also to absorb surplus capital. For reinvestment of the profits of monopoly within its own field is limited, it must invade non-monopoly fields and exploit the "free" industries. Both results are accomplished by means of the direct export of capital: it is invested in strategic enterprises like mining, metal manufactures, transportation, electrical communications, and light and power, whose monopoly domination permits the exploitation of "free" industries. The inflow of surplus profits from abroad tends to raise the rate of profit of monopolist combinations. Moreover, precisely because of their monopoly character, these combinations break through national barriers and become international, striving to monopolize the world's markets, sources of raw materials, and investment opportunities. But they are merely interested in profits: anywhere, anyhow, independently of the needs of the national economy. Their direct investments in foreign enterprises usually yield profits *without* any export of goods (for direct investments increasingly represent reinvested foreign profits or interest, and only *new* capital is identified with export of goods)—emphasizing that, as the export of capital grows, it becomes more important than the export of goods.

5. Exhaustion of the inner long-time factors of expansion, the most fundamental aspect of the export of capital and imperialism. Only expansion can overcome (temporarily) the contradictions and antagonisms of capitalist production, permit an increasing accumulation of capital, and prevent a disastrous fall in the rate of profit. This means an increasing output and absorption of capital goods, the conversion of surplus value into capital, and an augmenting of capitalist claims upon production and income. It also means an increase in employment, wages, and mass consumption. But monopoly capitalism is identified with measurable exhaustion of the inner factors of expansion, with a *downward* tendency in the output and absorption of capital goods. As long as capitalism is on the upswing, with rising accumulation, production, and consumption, foreign trade *may* be an exchange of goods for goods. But when the tendency is downward, imports in general are restricted, because they can be absorbed only by raising wages and mass consumption; this means higher wages and lower profits, and is unprofitable for the capitalist. The export of surplus goods must

more and more become an export of capital, that is, they must be paid for by foreigners not with other goods, but with capital claims upon their future production and income. The downward tendency in the *inner* absorption of capital goods must be compensated by an upward tendency in the *outer*. In other words, the export of capital and imperialism exploit the long-time factors of expansion in economically undeveloped countries (or the expansion possibilities of particular industries in more fully developed countries). But imperialism tends quickly to exhaust the outer long-time factors of expansion by hampering their free and full growth, even on a capitalist basis. It forces a lopsided development upon countries under its control, for imperialism is interested in quick and surplus profits and not in the economy as a whole. Agriculture and mining are overdeveloped to make profits on railroad construction and lower the prices of foodstuffs and raw materials; this results in overproduction, disastrous price falls, and the ruin of whole peoples. Monopoly controls, disturbing as they are in a highly industrial economy, are still more disturbing in a relatively undeveloped one, for they are more powerful because of the prevalence of small-scale enterprise and their foreign affiliations. The "free" industries are mercilessly exploited. Low wages, which are general and very low, and the export of profits depress local mass consumption and restrict balanced economic expansion. These conditions limit the absorption of capital goods. The non-imperialist countries are tied hand and foot to the interests of the imperialist powers, and their unbalanced economy is affected with the most destructive force by the maladjustments and disturbances of monopoly capitalism. Thus the decline and decay of capitalism thwarts economic progress where it might still move onward. This reacts upon and aggravates the decline of capitalism: the home economy becomes stagnant and parasitic, while development of the outer long-time factors of expansion, which might give capitalism a new lease on life, is hampered by monopoly and imperialism.

6. The dictatorship of finance capital, of the financial oligarchy, which dominates *both* the monopolist combinations making direct investments abroad and the monopolist banks originating and selling foreign securities. The most perfect fusion of industrial and banking capital appears in the export of capital and imperialism. Ownership, management, and control are separated on a colossal scale. By subordinating the export and import of goods to the production of financial and speculative profits, finance capital emphasizes that its primary interest is *not* the production and sale of goods. To Ivar Kreuger and

his American and British associates, the match *industry* was merely a pretext for the construction of a world monopoly for *financial* and *speculative* purposes. Enterprises are plundered, whole peoples mercilessly exploited, stock exchanges and governments manipulated, colonial wars instigated. (American capitalists, who have invested \$40,000,000 in the government bonds and \$73,000,000 in the tin mines, petroleum fields, and other industries of Bolivia, are encouraging and financing that country's war with Paraguay over the Chaco, which would give Bolivia access to the sea. "American interests now suffering financial losses in Bolivia will save millions in transport charges if Bolivia captures the Chaco.")<sup>17</sup> Finance capital, adventurous, speculative, international, is the driving force behind imperialism;\* and finance capital is the form of expression of monopoly capitalism, of capitalist decline and decay.

A bourgeois economist insists: "The moving force in American capital exports is large-scale industry, mass production at its height. . . . The leaders of expansion are not in the realm of finance capital, but of big industrial business."<sup>18</sup> This is a confusion of both fact and theory. Nearly half of American capital exports are not identified directly with monopolist combinations. Who, moreover, dominates "big industrial business"? Finance capital, the financiers, the financial oligarchy operating by control of both monopolist combinations and monopolist banks. The whole amalgam is under control of a small group of giant oligarchs. General Electric, United States Steel, Radio Corporation, and General Motors fly the flag of the Morgans and the du Ponts; Standard Oil and other corporations, of the Rockefellers and the Chase National Bank; the most important American mining interests abroad are identified with the Guggenheims and the Mellons, and both of these with the National City Bank and the Morgans, who are also identified with Anaconda Copper and the foreign interests of American Telephone and Telegraph. As in Europe, so in the United States, the great banking houses are the most active promoters of

\* Of the foreign bond issues floated in the United States in 1920-30, J. P. Morgan and Company originated \$1,807 million; the Guaranty Company, security affiliate of the Morgan Guaranty Trust Company, \$540 million; the National City Company, affiliate of the National City Bank, \$1,072 million; Chase Securities Company, affiliate of the Chase National Bank, Equitable Trust Company (absorbed by Chase National), and Harris, Forbes and Company (absorbed by Chase Securities), \$1,300 million; Dillon, Read and Company, \$1,491 million. U. S. Senate, *Hearings Before the Senate Committee on Finance, Sales of Foreign Bonds or Securities in the United States* (1932), pp. 419, 501, 902, 1,263.



the export of capital and imperialism: J. P. Morgan and Company, the Chase National Bank, and the National City Bank, which, in addition to control or influence over the most powerful monopolist combinations, have direct investments in the banks and industrial corporations of a score of countries, particularly in Latin America. Undoubtedly American combinations are more directly active in the export of capital than in England and France; but there also the most powerful factors in the export of capital and imperialism are the metallurgical, electrical (both manufactures and power), mining, communications, and chemical combinations. This was as true in pre-war Germany as in the United States to-day, and the German combinations were closely bound up with a few dominant banks.

The activity of monopolist combinations proves, moreover, that the export of capital and imperialism are not "merely" a "policy" of finance capital. Monopoly and finance capital are inseparable, are the result of the same underlying changes in capitalist production, they grow out of and dominate a definite stage of capitalism.\* This is the stage where capitalism revolts against its basis, free competition, begins to decline and decay, is rotten-ripe for change. To avoid the change, which can be nothing else than socialism, monopoly capitalism turns to the export of capital and imperialism. The theory that imperialism is a "policy" of finance capital or of monopolist combinations and not a stage of capitalism itself implies that imperialism may be "reformed" out of existence by "curbing" the international financiers or the trusts, by means of struggle against their "excesses." But as monopoly and imperialism arise out of capitalist production and intensify all its contradictions and antagonisms, the problem of their abolition is interlocked with the abolition of capitalism itself. . . .

The export of capital in the form of loans to foreign governments is frequently accompanied by thievery and corruption. Only part of the profits appear in the bankers' commissions. One Latin-American government received \$190,000 on a loan of \$3,800,000, another \$3,200,000 on a loan of \$10,000,000. Loans are forced upon weak governments by means of financial and political pressure, they are often for the most sinister purposes (including provocation of war), and they are made

\* "Imperialism is capitalism at that stage of development in which the domination of monopolies and finance capital has taken shape; in which the export of capital has acquired pronounced importance; in which the division of the world by the international trusts has begun, and in which the partition of all the territory of the earth by the greatest capitalist countries has been completed. . . . Imperialism, as understood in this sense, undoubtedly represents a special stage in the development of capitalism." Lenin, *Imperialism*, p. 81.



when bankers know the governments are on the verge of bankruptcy.\* Deliberately false statements are made in advertising the loans. American bankers in Cuba gave "easy" jobs to Machado's favorites, including his "perfectly useless" son; the Chase National Bank made personal loans of \$400,000 to the Cuban dictator, and loans to other prominent government figures. (Machado was for years president of the Cuban subsidiary of the Electric Bond and Share Company.) In connection with a loan to Peru, the American bankers paid a "commission" of \$415,000 to the dictator's son, Juan Leguia, who lived at the rate of \$250,000 to \$300,000 a year; this, it was explained, is "customary."<sup>19</sup> The people, the workers and peasants, pay.

Loans to foreign governments are seldom simple financial transactions. They are interwoven with imperialist economic and political objectives, the struggle for concessions and spheres of influence. This is amply clear in the series of loans made to the Chinese government, which was plundered of both its finances and its economic resources, with the help of the diplomatic and military pressure of the lending powers. Another, an American, illustration was the way a government loan and diplomacy were used to secure an immensely valuable oil concession in Colombia. This was the Barco concession, sold in 1917 to the Carib Syndicate, a company controlled by H. L. Doherty, of the Cities Service Company, and J. P. Morgan and Company. Gulf Oil, a Mellon corporation, bought the Doherty interest in 1926, when the Colombian government was threatening cancellation. The concession was cancelled. The State Department protested sharply against the violation of "American rights," but to no avail. Colombia was denied loans, apparently with the approval of the American Government. In 1930, the new president, Olaya, asked the National City Bank for a loan; its grant was urged by the State Department, which acted as intermediary. According to Olaya, Mellon, then Secretary of the

\* In 1933, \$1,400 million of Latin-American government bonds were in default, 60% of the total, while European government bonds suffered tremendous depreciation. This is nothing new. According to Max Winkler, *Foreign Bonds: An Autopsy* (1933), p. 135, 54% of all foreign government obligations listed on the London Exchange were in default in 1880. Losses have been tremendous. But the losses do not affect the bankers' profit nor the direct investments of monopolist combinations. Investors in home securities suffer similar losses. It is part of the plunder extorted by the financial oligarchy. The losses, moreover, help to keep capitalism going by destroying capital and making new investments possible, precisely as the losses of competition and depression help to maintain or restore "normal" investment and productive relations. Crazy? It is capitalist production. The losses of British investors in foreign securities did not prevent an increase in the export of capital.

Treasury, advised him to "settle the petroleum problem to hasten Colombia's recovery." A syndicate formed by the National City Bank agreed to extend a credit of \$20,000,000 payable in instalments and upon condition that the petroleum controversy was settled. The Mellon-Morgan interests were granted a fifty-year concession on the Barco oil fields. Telegrams from the American minister in Colombia were shown to representatives of the National City Bank, whose officials were in constant touch with the State Department. A Senate committee investigating the affair was refused one of these telegrams except "in confidence." The following discussion between Senator Johnson and Francis White, Assistant Secretary of State, is illuminating:

JOHNSON: When you received a telegram from the minister at Bogotá, it was read over the telephone to Mr. Lancaster [of counsel for the National City Bank]?

WHITE: That is right.

JOHNSON: Do you refuse to produce that telegram?

WHITE: I will have to take the matter under advisement.

JOHNSON: Do you mean to say that your policy is that you will read a telegram over the telephone to a representative of New York bankers, and yet you will deny that same telegram to the Senate of the United States?

WHITE: I do not deny it to the Senate of the United States. But I do deny it to the press of the country.

JOHNSON: You deny it to the press of the country?

WHITE: Yes, sir.

JOHNSON: Yet you thought it very proper to read it to the representative of bankers in New York.<sup>20</sup>

Independent foreign corporations may float securities in the American market on a purely investment basis. Usually, however, flotations of foreign corporate securities represent either corporations under American control or in alliance with an American combination. The export of capital is bound up, directly or indirectly, with the efforts of monopoly to become international.

Monopoly capitalism and imperialism reproduce, on a world scale, the conditions of domination within the national borders. Power fuels and metals and the industries they sustain, including machinery, are basic in the modern economy; their control means supreme power. Giant monopolist combinations are in mining, iron and steel, oil, light and power, electrical manufactures, chemicals, and transportation. This is the dominant inner zone, in which the Morgans, Rockefellers, du Ponts, Guggenheims, and Mellons move and have their

being; or rather, control of which, through the relations of finance capital, yields them their power. An intermediate zone is composed of variegated industries, some approaching monopoly character, most "free" industries exploited by monopoly. The outer zone of agriculture is a limbo, exploited by the inner zone and even by the intermediate. In the world economy there is an inner zone of major industrial-imperialist powers, an outer zone of producers of agricultural staples (mainly colonial), and an intermediate zone of countries approaching monopoly and imperialism, but dominated mainly by agriculture and "free" industries.<sup>21</sup> In addition to exploiting the agriculture and "free" industries of the outer and intermediate zones, imperialism aims to get control of the strategic resources and industries of all countries, and thereby make monopoly international.

The nature and objectives of the export of capital and imperialism necessarily mean a concentration of foreign investment in a few basic industries and enterprises. Of \$2,178 million American capital invested in branch plants abroad, \$1,145 million was in the production of raw materials, and that is independent of the investment in mining properties; of the capital in manufactures, more than half was in four basic industries. Over \$1,000 million is invested in foreign power enterprises, whose control makes possible an exploitation of industry in general. In 1927, of \$1,265 million American capital invested in Mexico, \$911 million was in railroads, mining, oil production, and smelting. From 1914 to 1929, \$5,113 million of foreign corporate securities were floated in the American market, the major groups being as follows: Public utilities, \$1,206 million; railroads and ships, \$1,004 million; banking, \$700 million; mining, \$646 million; manufacturers (mainly machinery, chemicals, textiles, and automobiles), \$460 million.<sup>22</sup> Most of the corporations were owned or controlled by American interests or in alliance with them.

Minerals, which provide the metals for the construction of machines and the power to run them, are a decisive aspect of the export of capital and imperialism. (Some non-minerals, *e.g.*, cotton, rubber, and raw sugar, are also important; the one affects British imperialist policy in Egypt, the other British, Dutch and American policy in Malaysia, the East Indies, the Philippines, and Liberia, the third, American policy in Cuba, Porto Rico, and Hawaii.) While no nation is self-sufficient in minerals, some have a larger resource endowment than others, and they are the highly industrial and imperialist nations. The world struggle for control of minerals has for its purpose either to supplement existing reserves or reserves approaching exhaustion, as

in the case of the United States, Britain, and France, or to make up for a natural scarcity of essential minerals, as in the case of Italy and Japan. These purposes, under the influence of finance capital, are transformed into efforts to secure monopoly control for the mere sake of monopoly profits. Disproportions in the world economy created by the uneven distribution of mineral resources are made still greater by the monopoly controls of imperialism.\*

Monopoly controls affect, in general, only non-reproducible raw materials, especially oil and metals. It is more profitable to exploit "free" agriculture in the production of other materials. . . . British and American interests control the world's oil reserves, 70% of which are located in economically backward countries. The ruthless struggle for supremacy, waged all over the world by one British and three or four American combinations, involves diplomacy and war. . . . Three nations and a handful of combinations control the world's iron ore reserves. Two American corporations, which in ten years may need large imports of ore, own mines in Cuba, Brazil, Chile, and the Philippines; British interests own mines in Africa, Spain, and Canada, the French in North Africa, and the Japanese in Manchukuo. . . . No steel producing nation has sufficient resources of ferro-alloys, and they are important stakes of imperialist politics. American interests own manganese mines in Brazil and Cuba, the French in Morocco. . . . American interests control 38,000,000 tons of the world's copper resources (20,000,000 tons in Latin America), the British 27,000,000 tons all in foreign countries, the Belgian 7,000,000 tons in the Congo, and the Japanese 4,000,000 tons. Part of the British reserves in Canada are owned by American capital. Ten combinations, two in the United States, control the copper industry. American efforts to acquire copper interests in Africa were repulsed by the British. . . . One British combination has a practical monopoly of the world's tin, based on mines in the Malaysian colony. The United States has no tin, but one American corporation controls the tin mines of Bolivia, the only serious competitor of the British. . . . In alliance with two European groups, the Aluminum Company of America controls the world's bauxite reserves; the Mellons also control the one world trust, the Alliance

\* Some of the disproportions and monopoly controls are being broken by synthetic raw materials, but only partly, because they are as yet limited and their production requires large amounts of capital. Synthetic materials introduce new elements of instability by their effect on prices; in the case of Chile, its national economy, which had come to depend upon the production of nitrates owing to the pressure of imperialist capital, was disrupted by the competition of synthetic nitrates.



Aluminium Company, with a monopoly of aluminum production. . . . Zinc production is dominated by three American and five European companies. . . . The International Nickel Company of Canada, in which American interests acquired the majority stock in 1930, is a monopoly with a capacity in excess of the world's needs.<sup>23</sup>

Monopoly controls of raw materials, actively supported by governments, arouse bitter antagonisms among nations. The situation is made worse by the fact that finance capital pursues a policy of monopoly profits independent of the interests of the home economy; thus the complaint is made that, because of the world interests of the copper combinations, "a program primarily designed for the American copper industry as such is impossible to conceive."<sup>24</sup>

The struggle to control the world's natural resources is interlocked with the struggle to control markets and investment opportunities in general. The most thorough form of control is colonial. All the imperialist powers have acquired large colonial empires: Britain, 13,616,000 square miles, population 417,000,000; France, 6,400,000 square miles, population 59,000,000; Belgium, Holland, Italy, and Portugal, 3,436,000 square miles, population 72,000,000; Japan, 478,000 square miles, population 25,000,000 (including Manchukuo). The "mother" country's share in colonial trade, which has risen more in recent years than foreign trade in general, ranges from 33% in the case of Italy to 71% in the case of Japan. Manchukuo is a perfect colonial monopoly: it has absorbed more than \$1,000 million of Japanese capital, 75% of its 1933 imports of \$419 million were from Japan, its large resources of coal, iron, and shale oil are wholly under Japanese control, and its economic policy is decided by the South Manchuria Railway.<sup>25</sup> Colonial controls are being tightened. The British Empire is trying to become self-sustaining, a "closed economic system." France is pursuing a similar policy.<sup>26</sup> Japan excludes other nations as much as possible from its colonial possessions. These measures constitute acts of aggression against both the colonies and other nations, and are especially resented by imperialist powers with small colonial domains.

Although the United States started late to fight for colonial empire, it has acquired a substantial share in the territorial division of the world. The share includes:

Colonies with 910,000 square miles and a population of 25,000,000 in Cuba, the Philippines, Alaska, Liberia, the Caribbeans, and Central America.

Financial and disguised political protectorates, with a semi-colonial



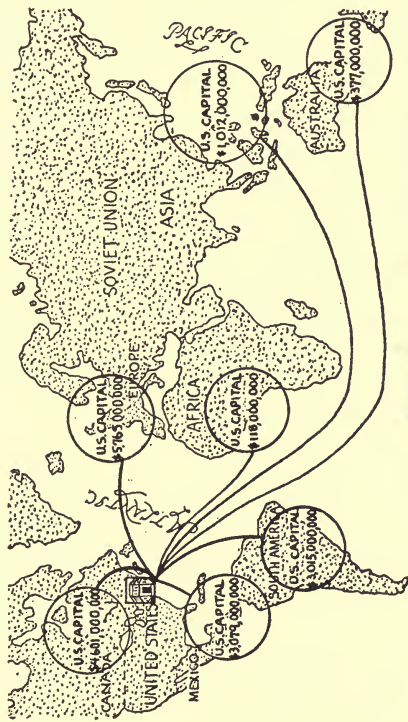
status, in Mexico, Colombia, Bolivia, Venezuela, Ecuador, and Peru: 2,950,000 square miles and a population of 35,000,000.

Political and financial overlordship in the balance (and the whole) of Latin America through economic power and imperialist interpretation of the Monroe Doctrine.

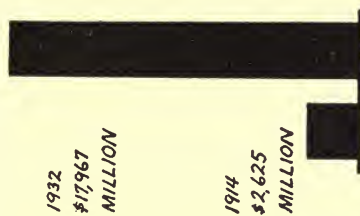
Latin America constitutes in general the colonial basis of American imperialism. Direct colonial control and its *costs* are avoided as much as possible; dependence is upon economic power and political overlordship. This policy may change as imperialist antagonisms sharpen. British, French, and other "alien" interests are being inexorably driven from Latin America, an enormous market for goods and capital, rich in natural resources. The American government may veto a concession to the nationals of any other power on the ground that it violates the Monroe Doctrine (which is a national doctrine of the United States and is rejected by Latin Americans). It means bolting the door against imperialist competitors. At the same time, American imperialism insists on the "open door" in China and elsewhere. While this policy appears to be one of "liberal" principles and "equality of opportunity," it is in fact an imperialist challenge to redivide the world, to abrogate the controls of colonial monopoly, protectorates, and spheres of influence, whose abrogation might easily mean the competitive victory of American imperialism because of its enormous industrial and financial resources. The "doctrine" formulated by Secretary of State Stimson and affirmed by President Roosevelt, that violation of the "open door" in China would force the United States to adopt more aggressive measures to maintain its "rights," was an openly imperialist threat of war.

Colonial enterprise yields large surplus profits. The major reason is low wages, the sweating of labor in the most merciless manner, including forms of forced labor indistinguishable from slavery. In 1933, when world copper prices were unprofitable, the British-Belgian copper mines in Africa made high profits: unskilled native labor was paid 15c a day, skilled labor \$10 a month, with even lower wages in many cases.<sup>27</sup> These are the conditions in an American economic colony:

"How did the American tin magnates in Bolivia manage to make a profit in the face of extraordinary shipping costs? Wages were barely enough to live on, so that the Indians remained permanently in debt to the mining company. Over 50% of the population is living in peonage. Labor laws of Bolivia provide for the 8-hour day, but the 12-hour day is practiced. The 7-day week is common, while in one mine a continuous shift of thirty-six hours was the regular routine. The



# U.S. FOREIGN INVESTMENTS

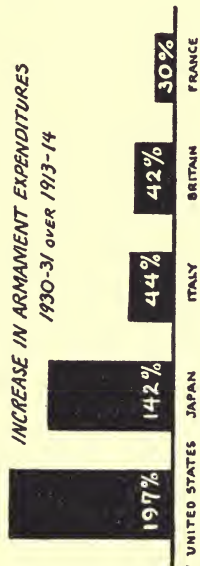


## COLONIAL EMPIRE

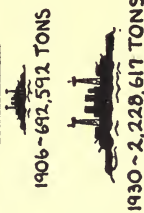
In the Philippines, Alaska, Hawaii, Cuba, the Caribbeans, Central and South America, and Liberia (Africa), the United States has a colonial and semi-colonial empire of 3,860,000 square miles and 60,000,000 inhabitants.

## INCREASE IN ARMAMENT EXPENDITURES

1930-31 OVER 1913-14



## U.S. NAVY



Patiño mines, a National Lead subsidiary (an American company which controls 80% of the tin output), operated at a production cost 20% below the world average and declared 15% dividends. . . . The people living in this land of wealth are poverty-stricken. Only 9% of the national budget is devoted to education; 85% of the people are illiterate. Bolivia is virtually a colony of the United States; American investors own or hold mortgages on the whole land."<sup>28</sup>

These conditions are general in colonial and semi-colonial countries. The inhuman exploitation of labor yields a higher rate of profit. Low wages react and eventually produce low wages in the home country, while limited consumption limits exports and imports as financial profits grow, a tendency which is enormously strengthened by capitalist decline. The main result is an increase of capitalist parasitism and luxury.

Colonialism is only one aspect of the imperialist struggle for control of markets, natural resources, and investment opportunities. The struggle is limited to no particular part of the world; it includes agrarian and industrial countries. Imperialist capital is active wherever there are markets to control, natural resources to seize, strategic industries to monopolize, or "free" industries to plunder. French imperialism was strengthened (and a group of financial capitalists enriched) by seizure of the mining and metal industries of Alsace-Lorraine and the Saar, while German imperialism aimed to seize those of Belgium and Northern France. Where new or comparatively new industries are developing, such as electric power, aluminum, and rayon, imperialist capital penetrates even highly developed countries to secure monopoly control. British and American imperialism struggle desperately in Latin America, Canada, India, Australia, and Africa. American capital invades Britain, and measures have been taken to prevent its control of British combinations. British capital retaliates by invading the United States; the Royal Dutch strikes at Standard Oil in its own market by forming an American company, Shell Union Oil, with assets of nearly \$500 million. Neither national nor colonial limits or interests hamper finance capital in its world operations, in the thrust for monopoly profits. The American Allied Chemical and Dye Corporation struggles aggressively for markets with its German and British rivals; yet, the Corporation complains, American financiers invest capital in both the British and the German chemical combinations.<sup>29</sup> In 1930 American and British interests formed the General Telephone and Electric Corporation to compete with the International Telephone and Telegraph Corporation, subsidiary of the American Telephone

and Telegraph Company.<sup>30</sup> Monopoly profits become more important than the export of goods. Tariff barriers may keep out goods, but not capital. The general situation appears clearly in the distribution of American foreign investments in 1932:<sup>31</sup>

Latin America \$6,094 million, of which \$3,361 million represented direct investments, mainly in mining, railroads, smelting, oil, light and power, and electrical communications; about \$2,500 million was invested in Mexico and Cuba.

Europe \$5,765 million, of which \$2,500 million was invested in industrial and power enterprises, including \$629 million in branch plants of American combinations; six large combinations alone had an investment of \$164 million in branch plants.

Canada \$4,601 million, more than half direct investments, of which nearly \$600 million was in American branch plants and another large part in mining; 35% of the capital invested in Canadian enterprises is foreign, 20% American and 13% British.

Australasia, Africa, and Asia, \$1,507 million, including China, the Philippines, and Liberia; the African investment represents mainly the Firestone interests in Liberian plantations, where native labor is mercilessly exploited with the benevolent approval of the native government and the American State Department.

In the struggle for control of the world's markets, natural resources, and investment opportunities American monopolist combinations meet the competition of foreign combinations, with a consequent intensification of international competition and antagonisms. Even more than in the home markets monopolist combinations aggravate competition in world markets. Attempts are made to limit competition by division of markets, stock interests in competing combinations, and interlocking directorates. The Alliance Aluminium Company unites aluminum producers into a world trust; the American I. G. Chemical Corporation combines American and German chemical interests; the French and German chemical trusts make an agreement; General Electric, through its subsidiary, International General Electric, acquires substantial interests in German and French electrical manufacturing combinations; the Electric Bond and Share Company, with interests throughout the world, becomes a factor in British and International Utilities and in the Adriatica-Volpi power group.<sup>32</sup> These are merely a few illustrations of the interlocking of monopoly interests. In addition, cartels are formed for steel, zinc, copper, rayon, nitrates, tin. But the cartels are engaged in perpetual internecine warfare over prices and quotas, the same warfare that goes on within national cartels.



Agreements, alliances, and cartels are only armistices in the struggle for monopoly control and profits; they are repeatedly violated, especially in depression. All international cartels have been weakened or dissolved since 1929. Competition assumes more savage forms. Cooperation becomes itself a source of strife. At the head of the Bagdad Railway, one of the causes of the World War, were fifteen Germans, six Frenchmen, and three Belgians, who were perpetually struggling and intriguing for a larger share of the enterprise.<sup>33</sup> International finance capital prepares imperialist war.

The economic division of the world among monopolist combinations and its territorial division among imperialist powers drives fatedly to war. Imperialism resorts to the arbitrament of the sword to maintain its "right" to exploit the world's peoples and resources, to overcome competitors. After analyzing the bitter struggle between American and British capital throughout the world, an American "liberal" imperialist concludes: "Either the supremacy of America will be recognized by Britain in peace, or that supremacy will be asserted in battles of blood."<sup>34</sup> In other words: "Yield! The world is ours." But there is no such simple yielding. Now a world power, the United States is aggressively and insolently aware of its might. It stands athwart the imperialist ambitions of Britain in Latin America, of Japan in China. A struggle looms for control of the Pacific. Conferences are held. The League of Nations invokes peace where there is no peace. The "agreements" and "understandings" parallel the maneuvers of the European powers prior to the World War. Meanwhile antagonisms multiply and the powers prepare war—against each other, against the Soviet Union, an incalculable revolutionary force, whose overthrow might yield imperialism a new lease on life. The war danger becomes momentarily more threatening.

For imperialism *must* aggravate international contradictions and antagonisms, precisely as monopoly does within the national economy. Monopoly defeats its own purpose if it includes all industry: there can then be no monopoly profits. Combinations must plunder each other and the "free" industries. So imperialist nations must plunder each other while they plunder the economically backward peoples. But these peoples, even if on a lower level, develop their own industrialism, with excess capacity, surplus goods, and surplus capital. These torments of capitalist production are aggravated within the imperialist nations. As the surplus of goods and capital mounts, markets are limited, and the international long-time factors of expansion are exhausted, im-



perialist nations must compete more aggressively with one another, in the same manner as combinations within the nation are forced to compete more aggressively. Monopolist combinations, moreover, are under pressure of the general capitalist needs of the national economy; and however much they pursue a policy independent of those needs, the pressure is still there, with frequently explosive results. There can be no unity of imperialism, no agreement to cease competition and warfare. And if, temporarily, an "ultra-imperialism" were possible, what would it mean? It would mean more ruthless exploitation of non-imperialist peoples, stagnation, low wages, and unemployment in the home economy, an accumulation of underlying contradictions and antagonisms which would inevitably explode into new wars. As the basis of imperialism narrows and the decline of capitalism becomes more acute, an intensified struggle ensues for the redivision of the world.

A liberal student of imperialism writes: "Backward countries and colonies are not necessities but luxuries for expanding capitalism. Fundamentally, economic imperialism is a symptom of overgrown production and excessive profits. But the lag between consumption and production may be reduced either by diminishing production, or, more comfortably, by increasing consumption. This means more wages and more spending and less profits and less investing.<sup>35</sup> Exactly! It is, however, precisely to avoid "less profits and less investing" that monopoly capitalism resorts to the export of capital and imperialism. And the "lag" or antagonism between production and consumption is an inherent contradiction of capitalism, an inseparable aspect of the accumulation of capital. Imperialism is a means for accumulation on an ascending scale. The liberal prescription asks capitalism to commit suicide. In theory, the demagogic spokesmen of the NRA want to "adjust" consumption to production; in practice, they encourage profits, stimulate exports, fight for American "rights" in Latin America, and prepare for war. The Nazis forget *Autarkie*, the "closed economic system," use government power to force exports, cast hungry eyes upon undeveloped territory, and prepare for war. Mussolini, in 1934, formulates a sixty-year program of imperialist expansion in Africa and Asia, "after which Italy will have the primacy of the world," and prepares for war.<sup>36</sup> State capitalism and fascism aggravate the antagonisms of imperialism by measurably merging industry and the state, by making the state more "planfully" an organ of finance capital: the struggles of monopolist combinations to control the world become more quickly "national" issues and more easily lead to war.

Monopoly capitalism and imperialism breed reaction as well as war. Imperialism exploits a country partly in alliance with its most reactionary social groups, against the workers and peasants. They may be feudal-agrarian groups; or rising capitalist groups, who are afraid that an aggressive struggle for national liberation might result in worker-peasant revolutions. The historic policy of British imperialism is also the policy of American imperialism. Financially and politically the United States upholds the most reactionary forces in the Philippines, the unspeakable dictatorship of Gomez in Venezuela and of other Latin-American tyrants. (American capital, both loans and direct investments, were of enormous service in the consolidation of the fascist dictatorship in Italy.) The counter-revolutionary forces in Mexico were encouraged by the American government. It upheld the Machado dictatorship in Cuba; except for the American threat of intervention, according to one bourgeois commentator, "the people of Cuba would long since have driven Machado out of power. The State Department has uniformly thrown its influence against any revolt."<sup>37</sup> And when the revolt took place, the State Department and its agents intrigued against the more radical governments and helped to restore a régime not much different from Machado's.\* Imperialism has consumed the liberalism of American pre-imperialist international policy.

Imperialist repression and reaction in colonial and other "backward" countries react and intensify repression and reaction in the home country. For monopoly capitalism and imperialism revolt against both free competition and its liberal ideology. "The substitution of monopoly for free competition," according to a bourgeois scholar, "has assimilated the views of the commercial classes to those held formerly by feudal aristocracies."<sup>38</sup> Imperialism and fascism, which merge into one violent reactionary and aggressive force, are the most perfect expression of monopoly's retrogressive tendency.

At the same time imperialism strengthens the tendency toward economic stagnation and parasitism. The increasingly parasitic nature of

\* The gesture of the Roosevelt Administration to "free" Cuba of the Platt Amendment is practically meaningless. This is admitted in an editorial of the *New York Times*, May 31, 1934: "It remains true that, with or without a treaty, the American government may lawfully intervene to protect its own nationals or their property. . . . Moreover, the retention of the naval base at Guantanamo is a clear indication that Cuba is embraced within the plans of the United States for national defense. Guantanamo has its relation to the Panama Canal and also to the Monroe Doctrine. . . . All this must be clear to intelligent Cubans. Their rejoicing over the abolition of the Platt Amendment is largely sentimental."

capitalist ownership is revealed most strikingly by imperialism.\* A handful of investors in six imperialist powers own, directly or indirectly, foreign investments of probably \$55,000 million, yielding an income of at least \$3,000 million yearly. Ownership is almost wholly impersonal and institutional. More than half the American foreign investments of \$18,000 million are owned by combinations and nearly \$1,000 million by banks, in addition to other institutional holdings. The income is received by a handful of investors, who know nothing of the source of the income. Another handful own the personal holdings: \$1,250 million of German government and corporate bonds are owned by 200,000 American investors; five foreign government issues in 1923–25, totaling \$380 million, were bought by only 104,713 investors.<sup>39</sup> (Yet the Foreign Bondholders Protective Council makes the interests of its members coextensive with those of the American people; a government corporation is urged to protect the interests.)<sup>40</sup> To insure the tribute of these parasitic rentiers, foreign labor is mercilessly exploited, governments increase their armaments, and wars are waged.

This parasitism is accompanied by a tendency toward stagnation in the home economy. While colonialism and the earlier imperialism emphasized the export and import of goods, later imperialism makes the export of capital more important than the export of goods. For finance capital is interested primarily in profits, not in goods or the home economy. Branch plants in foreign countries yield profits mainly independently of the home economy. Mining combinations produce minerals abroad, even if it hurts the home industry, and sell the output in any market. The bitter struggle between American and British capital for control of the world's electrical communications, latent with the threat of war, involve only small profits on the export of equipment (although this is a factor): the main profits are "earned" independently of the export of goods. The American electrical manufacturing combinations, General Electric and Westinghouse, own or control light and power systems in Latin America, Europe, and Asia. These interests were originally acquired to provide and control markets for machinery and apparatus, but that purpose is now subordinate to the profits secured from operating revenues. The capital with which combinations operate in foreign countries is increasingly derived from reinvested profits, and tends to separate international finance capital more com-

\* Imperialism is a "social parasitic process by which a moneyed interest within the state, usurping the reins of government, makes for imperial expansion in order to fasten economic suckers into foreign bodies so as to drain them of their wealth in order to support domestic luxury." J. A. Hobson, *Imperialism* (1902), p. 389

pletely from its contacts with the home economy. Thus in Cuba, in 1928, of the American capital investment of \$1,140 million, not more than \$500 million represented an export of new capital;<sup>41</sup> the balance was capitalized profits. The interest received on American foreign investments in 1928-29 was almost as great as the export of capital in those two years. In Britain before the World War the income from foreign investments had already become more important than the net gains from foreign trade. According to the Board of Trade, the British income from foreign investments in 1933 was £155 million, the profit on the export of goods only about £35 million.<sup>42</sup> American exports and imports in 1920-30 amounted to \$102,000 million.<sup>43</sup> Assuming a profit yield of 10%, the total profits from foreign trade were \$10,200 million, only slightly more than the foreign investment income of \$9,896 million. In 1930, the income from foreign investments was *greater* than the profits from foreign trade, nearly \$1,000 million compared with \$730 million. *The income from foreign investments, which increasingly represent the export of interest on existing investments, not the export of new capital or goods, is derived from no economic activity within the home economy, produces no employment, wages, or mass consumption.* It merely augments the income and strengthens the parasitism of the financial oligarchy, of rentiers: a supreme expression of the tendency of monopoly capitalism to make the production of financial and speculative profits more important than the production of goods. The workers "gain" only from greater demand for luxury goods and servants.

The parasitism of imperialism strengthens the tendency of monopoly capitalism toward economic stagnation and decay. Monopoly acts as a relative check upon production, emphasized by the exhaustion of the inner long-time factors of expansion. This is partly offset by the export of capital and imperialism, in their earlier stages; but the later stages intensify stagnation and decay. One aspect of these developments is the necessity for an imperialist nation to increase its imports; for not all the interest on foreign investments can be reinvested, part of it must be consumed. Since 1900 the British excess of imports over exports has risen enormously, tribute wrung from "backward" peoples. A similar necessity is developing in the United States. But the imports will be limited to a few categories. Monopolist combinations will not permit the import of goods which threaten their own markets. They must be primarily goods produced by the "free" industries, whose chaos and decay are aggravated. Above all, they must be goods produced by agriculture (and mining products, because monopoly can recoup itself in



foreign markets). The agricultural crisis becomes more acute, the farmers thrust more rapidly downward into the peasant class.\* As the income from foreign investments is of foreign origin and concentrated in a handful of investors, it represents no home employment, wages, and mass purchasing power; only this income, therefore, can buy the "excess" imports (or their equivalent). Local production and goods are displaced. Employment and wages fall, particularly as, under the conditions of decline, low colonial wages exert a greater downward pressure on home wages. Thus the export of capital and imperialism, an effort to escape decline, react and intensify the decline of capitalism. This economic undermining is accompanied by political undermining; for colonial revolts against imperialism tend to become struggles against capitalism itself, a phase of the same struggle in the "mother" country.

All these contradictions and antagonisms, mass disemployment, lower standards of living, and the threat of more destructive wars result from violation of the imperative mandate of objective conditions which demand new social relations of production. Monopoly and finance capital exploit the objective socialization of production, they prevent the forces of consumption developing commensurately with the enormous forces of production of modern society, prevent a new society from emerging. Imperialism exploits the increasingly international character of industry, the constantly greater economic interdependence

\* "We are now in that blessed state of being a creditor nation. The rest of the world must every year produce at least \$1,000 million of goods and services over and above local needs to pay us our pound of flesh in interest charges. It must be axiomatic that our debtors neither will be able to pay nor, what is more important, be in a position to borrow further unless they are permitted to produce those commodities they are capable of most easily. It is foolish to expect that American finance capitalism in the long run will at once subsidize American commercial agriculture and encourage other commercial agricultural economies to expand. A choice is imperative, for the world market for foods is contracting. The course England followed in the 1850's and 1860's, because it was dictated by necessity, is the same round we must embark on. . . . To keep South America and China open for American capital: to build railroads, wharfs, and power transmission lines; to finance governments so that they may embark on public construction programs; to open mines, dig oil wells, cut down forests; to lend local enterprisers money for the erection of factories: the world—and that includes the United States—must be permitted to buy Manchurian (and eventually Mongolian) wheat and soy beans, Uruguayan and Brazilian jerked beef, Argentinian wheat, corn, mutton, and chilled beef. . . . American commercial agriculture is doomed. No gifts of clairvoyance are required to foretell that the future of the American farmer is the characteristic one of all peasants for whom, in our present system of society, there is no hope." Louis M. Hacker, *The Farmer is Doomed* (1933), pp. 29–30, 31.



of nations, which is economically distorted to yield profits and is politically converted into a source of conflict and war.

Thus imperialism is the final expression of the decline and decay of capitalism. It is marked by wars and revolution. For as war comes, communism issues its call to transform the imperialist war into a civil war of the oppressed against the oppressors—a struggle *for socialism*. . . .

In the national economy, there is no going backward to small-scale production: we must go onward toward the *new* social relations implicit in the socialization of production, toward the planned economy of socialism. In the international economy, there is no going backward to small-scale national units of production: we must go onward toward the *new* international relations implicit in the economic interdependence of nations, toward the planned economy of world socialism. Both these measures necessitate abolition of the profit motive, of capitalist production. There must be a cooperative, rational, planned distribution of the world's natural and industrial resources: regional (not merely national) planning as the basis of unified international planning.

Both internationalism and large-scale industry (which does not exclude the largest possible measure of decentralization, especially the unity of industry and agriculture) must be accepted, released from the fetters which destroy their promise. The internationalism of free competition, of industrial capitalism, was progressive in spite of its predatory aspects; it thrust the world onward to a new order. The imperialist internationalism of monopoly capitalism is wholly predatory, it thrusts the world backward to reaction and war, the strangling of progress. Socialist internationalism, arising out of objective economic necessity and the conviction that complete socialism is possible only on a world scale, is wholly progressive, the expression of an economy of abundance and peace: an internationalism which does not exclude national and regional differences in culture, for the merging of the strains makes a finer world symphony.

## Summary

Our of capitalist competition arises the concentration of industry. For the competitive struggle, waged primarily by cheapening costs, develops the imperative to produce more and sell more. This involves the necessity of enlarging the scale of production, emphasized by the pressure of technological change, with its constantly greater demands for fixed capital and raw materials, and the efforts to overcome a fall in the rate of profit by increasing its mass. Thus capitalist expansion and accumulation are accompanied by the gradual but inexorable rise to power of large-scale industry. Small individual producers are replaced by giant corporate enterprises, utilizing the most efficient methods of production and distribution, including inner planning and the control of raw materials and markets throughout the world.

Concentration is interwoven, both as cause and effect, with a complex system of interdependent institutional arrangements: economic activity becomes more and more collective, more *social* in its forms. A fundamental change occurs in the objective relations of capitalist production. Ownership and management are separated by the multiplication of stockholders. Ownership is vested in stockholders who own but do not manage and merely receive dividends. Management is vested in employees who manage but (as a functional group) do not own. The stockholder, beyond the pieces of paper which represent ownership, is unable to say "this" or "that" is "mine." He knows nothing of the enterprise in whose ownership he has a stake, except its dividend yield and stock market quotations. Corporate industry is institutional or impersonal, an immense objective socialization of production; but the older relations of private or personal ownership and appropriation persist within the newer economic forms.

Industrial concentration represents an essentially *new* mode of production developing within the older social relations of capitalist production, the *objective* basis of a *new* social order, of socialism. But industrial concentration also develops forces which are a negation of its progressive aspects, the forces of monopoly and finance capital. Socialization of production makes monopoly possible, and monopoly tends to sacrifice efficiency and output in favor of higher prices and

surplus profits, of speculation and financiering. Separation of ownership and management permits seizure of control by the financial oligarchy, which imposes its dictatorship over industry. The industrial capitalist combined predatory and constructive functions; the financial capitalist is wholly predatory. Where industrial capitalism was identified with economic progress and upswing, monopoly capitalism is identified with retrogression and decline.

Monopoly capitalism is accompanied by measurable exhaustion of the inner long-time factors of expansion. This means an absolute or relative fall in the output and absorption of capital goods, the basis of capitalist accumulation and prosperity. Restriction of employment in the capital goods industries restricts the creation of mass purchasing power. Consumption moves downward. But the industrial concentration underlying monopoly capitalism represents an enormous increase in the productive forces of society. Hence both excess capacity and surplus capital mount. These conditions limit the realization of surplus value as profit and its conversion into capital. The rate of profit tends to fall, and sets in motion efforts to overcome the fall. Competition flares up in new forms. It is intensified in the non-monopoly fields; and, since monopoly is seldom complete, monopolist combinations alternate between cooperation and competition, with competition tending to become more destructive. The situation is aggravated as monopoly enlarges its field of control, for monopoly thrives only when it is comparatively limited, only where there is a mass of "free" industries to exploit. As contradictions and antagonisms are aggravated, monopoly capitalism seeks a way out in the export of capital and imperialism.

Monopoly, by its very nature, strives to become international, to control foreign markets, sources of raw materials, and investment opportunities. This is not merely a policy of monopoly and finance capital, but the expression of a new stage of capitalism. In the epoch of upswing, of industrial capitalism, when the output and absorption of capital goods moved upward, the emphasis was on the export of goods; in the epoch of decline, of monopoly capitalism, when the output and absorption of capital goods moves downward, the emphasis is on the export of capital to offset limitation of inner investment opportunities and capital accumulation. But, as in the case of monopoly, there are definite limits to the export of capital and imperialism. They thrive only when restricted to a small circle of highly industrial nations; as the circle widens and expansion contracts, the imperialist nations must plunder one another. Hence war inevitably results from the struggle for the economic and territorial division and domination of

the world. Imperialism is the violent expression of the efforts of monopoly capitalism to overcome the limitations upon accumulation, and the resulting tendency toward economic decline, by exploiting the outer, the international long-time factors of expansion.

These efforts are only partly and temporarily successful, and they eventually strengthen the elements of decline. The export of capital becomes more and more an export of interest on existing foreign investments. Imperialist finance capital increasingly operates in the world markets with reinvested profits, independently of the needs of the home economy, which is no longer stimulated by an export of capital identified with the export of goods. Dominated by an alien monopoly and imperialism, the development of economically backward countries is distorted and hampered by the mere fact of domination and by the pressure of the decline of capitalism. The outer long-time factors of expansion are quickly exhausted (on a capitalist basis). This reacts and aggravates inner decline, sharpens imperialist antagonisms, and multiplies the burdens of armaments and the dangers of war.

Underlying the decline of capitalism, and the desperate imperialist efforts to overcome it, is the objective clash between older and newer relations of production. From a social-economic viewpoint, monopoly capitalism and imperialism are the transition to a new social order; from a class-economic viewpoint, they are an effort, by the dominant capitalist interests, to prevent the birth of that order. This sharpens both economic contradictions and class antagonisms. The clash between the old and the new, under the conditions of capitalist decline, is no longer "softened" by the upswing of capitalism and prosperity.

Class lines become more rigid and class differences more acute. The mass of the farmers, exploited by monopoly capitalism and imperialism, are thrust downward to the level of an American peasantry. Large elements of the middle class, particularly small businessmen and professionals, are objectively proletarianized, deprived of their occupations and property. The working class, whose driving force is the industrial proletariat, the specific creation of capitalist production, is tormented by disemployment and lower standards of living. Class struggles become more violent, develop new forms and objectives. As capitalist decline makes it impossible to adjust class antagonisms peacefully, by balancing one interest against another, a struggle for power arises, for the power to decide what shall be done with the economic order. The interests of the capitalist class are identified with *repression* of the new relations of production, moving backward to reaction and stagnation. The interests of the working class are identified with *liberation* of the

new relations of production, moving onward to progress and socialism. Incapable of an independent historical policy, the farmers and the exploited groups of the middle class must accept either the reactionary policy of the capitalist class or the revolutionary policy of the working class.



PART EIGHT

The Struggle for Power



## Introductory

ECONOMIC forces—institutions and their ideology—are interlocked with the *class* relations of society. In any society based on private property the relations of production mean the domination of a particular class ruling over other classes. Economic contradictions and antagonisms, and economic development in general, are expressed in class interests and class struggles. The focal point of the class struggle is the state, for its force is necessary to realize class interests. Thus the class struggle is a *struggle for power*: to maintain or secure control of the state to decide the issues created by class-economic contradictions and antagonism. Neither economics nor politics are intelligible without reference to class relations and the balance of class power.

In “normal” times the class struggle is comparatively peaceful and the struggle for power mainly potential. The ruling class is solidly entrenched in the state, supported by all the institutional and ideological relations arising out of the existing order. It may be forced to make temporary or minor concessions; but this is compatible with the continuance and consolidation of its power for three reasons: the ruling class still represents at least the possibility of economic progress and, by and large, still “delivers the goods,” its concessions blunt the edge of opposition and strengthen its institutional and ideological supports, and the ruled classes are neither desperate enough nor conscious enough to initiate a revolutionary struggle for power. When American capitalism was on the upswing, the struggles of the agrarian, middle class, and labor radicals were easily smothered by a policy of concessions and suppression *and the hope of better things*. But this has its limits. While the ruling class is strengthened, it is at the same time undermined by social-economic forces which eventually produce a decline and crisis of the system. Dominant institutional and ideological relations begin to crumble. The ruling class no longer represents even the possibility of economic progress: it no longer “delivers the goods.” Hope of better things is replaced by bitter disillusion. Concessions are more difficult to make and do not satisfy, for they are limited by economic decline and the interests of the ruling class. Class struggles become more intense and explosive, more conscious of goals and means. As classes

mobilize and fight, issues are clarified. The struggle for power becomes the order of the day, for it is now clear that the real struggle is between the old order and the new, and their class representatives: *i.e.*, in contemporary society, capitalism and socialism, the capitalist class and the working class. This struggle absorbs all other issues and classes.

The emerging struggle for power is being shaped by three major developments:

1. The cyclical crisis: its unprecedented severity, bound up with an important qualitative change in the character of depression, profoundly disturbed institutional and ideological relations.

2. The crisis of prosperity: the inability to restore prosperity on any considerable scale, with its terrible consequences in disemployment, lower standards of living, and the resort to imperialism and war, means that the institutional and ideological disturbances of the depression will be transformed into sharper and more conscious class struggles.

3. The crisis of the capitalist system: Both the severity of the depression and the inability to restore prosperity on any considerable scale are aspects of the decline of capitalism. Capitalist relations are no longer compatible with the development of the forces of production, they now mean an absolute limitation of production. This clearly reveals the transitory, the relative historical character of the capitalist mode of production. It is a crisis of the system itself, whose only possible outcome is socialism or economic and cultural decay.

This crisis of the system compels the intervention of the state—the state of the ruling class. Although it claims to act in “the public interest,” for the *people*, *society*, and *nation*, state capitalism is really an expression of the class struggle, of the efforts of capitalist interests to maintain their rule and the system it represents. One liberal apologist of the NRA unwittingly gave the case away in justifying the resort to state capitalism:

“The old economic forces still work and they do produce a balance after a while. But they take so long to do it and they crush so many men in the process that the strain on the social system becomes intolerable. Leaving economic forces to work themselves out as they now stand will produce an economic balance, but in the course of it you may have half of the entire country begging in the streets or starving to death.”<sup>1</sup>

Consider the significant words: *the strain on the social system becomes intolerable*. It does, endangering the capitalist system: hence the intervention of the state. But why, in the past, did not “leaving economic forces to work themselves out” produce an “intolerable social

strain"? Because capitalism was on the upswing, had not yet exhausted the possibility of economic progress. Now, with capitalism on the decline, it means millions "begging in the streets or starving to death." Only an economic balance *on a lower level* can be produced, in spite of state intervention. For the measures of state capitalism are not intended, as other NRA apologists claim, "for the primary purpose of providing full employment with adequate purchasing power,"<sup>2</sup> but to bolster up the old order, aid it to function on a profitable basis, maintain capitalist domination: precisely the factors which are responsible for the crisis. Because of economic decline and the class nature of the state, any possible "economic balance" is necessarily accompanied by disemployment and lower standards of living. Behind the compromises, concessions, and pretenses of state capitalism is the ruthless determination to maintain capitalist supremacy. This aggravates the crisis of the system and arouses constantly greater opposition. The capitalist struggle to maintain power is answered by the revolutionary struggle of the working class to conquer power.



## Prosperity and Capitalist Decline

**R**ECOVERY and prosperity *must* be on a lower level. From an economic viewpoint, this means the exhaustion of the progressive forces of production on a capitalist basis; from a class viewpoint, it means that capitalist domination prevents a reorganization of industry which would insure an upswing of production and consumption. The resulting class-economic crisis is an expression of the decline of capitalism.

This depression (and all the European post-war depressions) is quantitatively different from its pre-war predecessors in greater depth and duration: in the unprecedented decrease in production and employment and in the agonizingly slow and incomplete character of recovery. The quantitative difference is determined by a qualitative difference of the utmost historical importance: former depressions were an aspect of the youth and upswing of capitalism; depression now is an aspect of its old age and decline. The qualitative difference expresses itself in two major developments:

1. The cyclical factors of recovery, while still working, no longer work freely and efficiently: they are now hampered by all the "controls" of "organized" or monopoly capitalism, intensifying the depth of depression and postponing recovery.

2. The non-cyclical factors of long-time economic expansion are measurably exhausted (within the relations of capitalist production): they no longer contribute to quick recovery and an upsurge of prosperity.

In every depression a combination of cyclical and non-cyclical factors is necessary to initiate recovery and invigorate prosperity. They permit the revival of production by providing the conditions for the accumulation of capital on an ascending scale. Although they react on one another, the two factors are independent. They are, moreover, affected by structural economic changes and the prevailing stage of capitalism. And where the factors do not combine in the right proportions, accumulation is limited and recovery and prosperity are incomplete.

The cyclical factors of recovery depend primarily upon the free play of economic forces. This restores (on a lower level) the equilibrium whose disturbance engendered crisis and depression. The process, as we

have seen, takes the form of liquidation, which "eases" the disproportions created by excessive capital and capital claims, production, prices, and profits. Most important is the depreciation of capital and capital claims: their multiplication during prosperity determines the coming of crisis and depression, for the burdens they impose upon purchasing power, prices, earnings, and accumulation cannot be supported by production and consumption. Depreciation of capital and capital claims eventually sets in motion the cyclical forces of recovery.\* The weaker enterprises go bankrupt and the stronger write down capital assets and values. Limitation of production and depreciation of values reduce capital claims; this makes more profitable operation possible for the efficient survivors, within the restricted limits. Prices, particularly the prices of materials and labor, fall to a level where they encourage buying and producing. The output of capital goods moves upward, stimulated partly by the fall in prices but mainly by the pressure of unpostponable replacements and the efforts to increase the productivity of labor with more efficient equipment to offset the lower level of prices and profits. Production, employment, purchasing power, and consumption begin to rise because accumulation and the rate of profit rise. The stage is set for an upsurge of prosperity.

The working of the cyclical forces of recovery was substantially, if not wholly, free in the epoch of competitive capitalism. But capitalist production, which needs flexibility to "solve" contradictions and respond to new conditions, increasingly develops elements of inflexibility. These elements are interlocked with industrial concentration and monopoly: with large-scale industry, increasing specialization and immobility of productive capital, constantly higher fixed costs, control over markets and output, comparatively rigid and disproportional price

\* "Crises are always but momentary and forcible solutions of the existing contradictions, violent eruptions which restore the disturbed equilibrium for a while. . . . The equilibrium is restored by making more or less capital unproductive or destroying it. The principal work of destruction would show its most dire effects in a slaughtering of the *values* of capitals. . . . The fall in prices and the competitive struggle would have given to every capitalist an impulse to raise the individual value of his total product above its average value by means of new machines, new and improved working methods, new combinations, which means to increase the productive power of a certain quantity of labor, to lower the proportion of the variable to the constant capital. The depreciation of the elements of constant capital [in addition to wage reductions] would be another factor tending to raise the rate of profit. . . . The stagnation of production would prepare an expansion of production, within capitalist limits. In this way the cycle would be run once more . . . under expanded conditions of production, in an expanded market, and with increased productive forces." Karl Marx, *Capital*, v. III, pp. 292, 299.

structures, and the accumulation of reserves to offset the vicissitudes of the market. The capitalist system becomes both less responsive to changes and more sensitive to disturbances under the "controls" identified with the growing elements of inflexibility. They intensify the instability of prosperity (particularly as they are involved with the higher composition of capital, which lowers the ratio of labor and wages to capital and output, and aggravates the antagonism between production and consumption). They tend to deepen and prolong depression because the "controls" interfere with the free play of the cyclical forces of recovery,\* prevent the "easing" of disproportions and create new ones. As accumulated financial reserves permit payment of fixed costs and even dividends, monopolist combinations are able to resist the destruction or depreciation of capital; and they resist the fall of prices because of control over competition and markets. Where monopolist combinations go bankrupt, the enormous fixed capital investment prevents their going out of business. Its control of markets and prices makes monopoly measurably independent of the compulsion to increase productive efficiency, and lessens the demand for capital goods. As monopoly maintains artificially high prices for materials used by other producers, it hampers their resumption of production on an enlarged scale. The price policy of monopoly, while it does not increase production and employment in its own field, tends to decrease them in other fields. "Unquestionably the duration and intensity of the cyclical depression was effectively and essentially unfavorably influenced by these [monopolist] organizations."<sup>1</sup> Prices may, even where no monopoly exists, lag behind necessary readjustments under the influence of other forces. And where prices do move freely, their fall (and the destruction or depreciation of capital) is all the greater and more disastrous because of the lag in other fields. Thus prices, which once were, unevenly and within the limits of more decisive underlying forces, a "regulator" of production, now no longer perform that function or perform it more unevenly. In this, prices respond to the limitation and transformation of competition under monopoly capitalism. The result is that the cyclical forces of recovery are checked and distorted; liquidation goes on, but incompletely and disproportionately. Depression is deepened and prolonged. The forces which sustained

\* Many bourgeois economists insist that "fixed" union wages and unemployment insurance or relief are elements of inflexibility which interfere with recovery. Unlike the other elements, however, they increase instead of decrease consumption and production. But they eat into profits and the income of the well-to-do. Hence the opposition, which becomes most brutal under fascism.

capitalist production now turn into their opposites and become its antagonists.

During depression, the downswing of production, prices, and earnings tremendously increases the burden of debt and interest, one of the elements of inflexibility. (In agriculture, where it was impossible to limit production and prices moved most freely, the burden of interest became insupportable.) The Roosevelt Administration in March, 1933, resorted to inflation to lighten the monstrous load of debt and to stimulate recovery by raising prices. This created new disproportions. While the value of the farmers' interest payments was reduced, industrial prices rose more than agricultural prices. An inflationary rise of prices tends to raise the rate of profit by increasing money earnings and decreasing the value of interest payments, of other fixed costs, and of wages. The result, however, is mainly a transfer, as earnings mount, of corporate payments from one type of investor to another. Prices and profits rose, real wages fell. Price disproportions were not destroyed; relations between one group of prices and another were changed, but prices in general tended to become more disproportional. The inevitable result was reaction and relapse. Production rose in anticipation of higher prices; but, with the exception of automobiles, the larger output was mainly in semi-finished goods. By July the inflationary upswing in production reached its limits; then production moved downward, in spite of the NRA and manipulations of the gold content of the dollar, until by November more than 50% of the "recovery" gains had been wiped out.\* Inflation feeds on itself: if stopped, reaction ensues; if continued, it holds the menace of a social-economic crash. Rising prices, inflationary or otherwise, may stimulate production for a time, but recovery and prosperity depend upon more substantial economic forces. . . .

Restoring the "free" play of competition and prices is impossible. It would, moreover, make the situation worse because of the highly complex and delicate relationships of capitalism to-day. Unrestricted liqui-

\* Production moved upward again from November, 1933 to March, 1934, but regained less than half the losses of July-November, 1933. Profits rose, employment and wages fell. In March, 1934, employment in manufactures was only 76.4% of the 1926 level and wages only 59.4%. Even the small gains from November to March were made possible only by the fact that the government poured money into industry at the rate of \$470 million monthly: exactly as, in Germany, the small revival which started in the fall of 1932 was almost wholly in industries aided by grants of public money. *New York Times*, April 19, 1934; John T. Flynn, "Other People's Money," *New Republic*, May 9, 1934, p. 364; Robert Arzet, "Hitler Economy Calls for Low Price System," *New York Herald Tribune*, May 20, 1934.



dation, always destructive, might now prove catastrophic. In fact, in a prolonged depression, liquidation may, in spite of "controls" and partly because of them, reach a point where dangers multiply. So there is a resort to more "controls" in the form of state capitalism. But the effect of state "controls" is almost wholly negative. While they may temporarily prevent a more serious breakdown, they also hamper recovery by aggravating the disproportions created by the "controls" of monopoly capitalism. State intervention helps to maintain artificial prices, interferes with the destruction or depreciation of capital by granting loans and subsidies to tottering or inefficient enterprises, and insures, in one way or another, interest payments and higher profits. Thus the state strengthens the interference of private "controls" with the cyclical factors of recovery. The capital structure and property income are protected, resulting in an "inflation" of capital values and claims out of line with the existing level of production and consumption. The state's vast resources, financial and compulsive, make it possible to adopt measures which stimulate industry; but, as in the case of the NRA, the stimulus is short-lived and ends in nervous reaction. Nor was this a result of the NRA's incomplete state capitalism. The "controls" of state capitalism in Germany were, up to 1933, the most highly developed in the world, but they did not prevent the depression or bring about recovery. Fascist "controls"? Conditions became worse in Germany under fascism; a small revival in production, due to Hitler continuing the state capitalist measures of former governments, was offset by a decrease in wages and an increase in forced labor, with an economic catastrophe as the final result. After five years of consolidation, Italian fascism was helpless when the cyclical storm burst in 1929-30; conditions afterward were at least as bad as in other countries (with more of the burdens thrust upon the workers, deprived of the right of independent organization and action).

The "controls" of monopoly, state capitalism, and fascism do not work, or produce disastrous results, because they are a compromise between the old and the new. They represent a departure from the relations of capitalist production *within the limits of those relations*: one interferes with the other. An aspect of this contradiction is thus set forth by Sir Arthur Salter:

"We have, in our present intermediate position between these two systems ["competitive" and "planning"], lost many of the advantages of both and failed to obtain the full benefits of either. Without securing the advantages of deliberate planning, we have enough official control and private privilege and monopoly to impede the automatic adjust-



ments. From this worst of both worlds we must certainly escape.”<sup>2</sup>

Salter recognizes the contradiction without realizing its implications. Something much deeper than “competitive” and “planning” systems are involved: *an objective clash between two economic systems, capitalist individualism and socialist collectivism*. The cyclical factors of recovery depend upon economic individualism, the basis of capitalism; but industrial concentration means economic collectivism, an implicit abolition of capitalist production within the relations of capitalist production itself. Hence the old factors no longer work freely and efficiently; repressed by economic collectivism, they are distorted by the “controls” of monopoly and state capitalism, which are merely class-economic efforts to overcome the contradictory and antagonistic results of the clash between old and new forms of production.\* More than

\* Depression is deepened and prolonged also by imperialism, another expression of class-economic efforts to overcome the contradictions and antagonisms of monopoly capitalism. Imperialism makes prosperity more unstable by making it increasingly dependent upon the world market, which becomes more unstable because of imperialist disproportions and antagonisms. The cyclical crash of 1929–30 came first in the major industrial nations, concurrently in the United States and Germany. It reacted upon the world economy, particularly the agrarian lands. Where the prices of agricultural and mineral products had been falling steadily but slowly before the crash, they now fell sharply. The world agricultural crisis became worse. This crisis was a direct result of imperialism, for its drive to earn profits on exported capital stimulated the production of agricultural and mineral products beyond balanced needs, particularly as synthetic raw materials were making highly industrial nations less dependent upon agrarian lands. The disastrous fall in the purchasing power of these lands limited their imports. Foreign trade experienced the greatest absolute and relative losses in history. Import “controls” made the situation worse. Industrial production moved more rapidly downward, particularly in the export industries. Countries which had been borrowing money to pay for imports, particularly from the United States, were hit most severely, for after 1930 the American export of capital fell to zero. In 1931 the depression was aggravated by the world financial crisis resulting from agrarian countries suspending payments on foreign obligations. Britain was forced off the gold standard; and while temporarily overcome in the United States, the financial crisis burst with all the greater fury in the spring of 1933, forcing the closing of banks and suspension of gold payments. Underlying all these developments are the disproportions among nations in the world market. One set of disproportions exist and develop between the highly industrial nations (analogous to the inner disproportions between industry and industry): they force production and exports regardless of one another. A second set of disproportions exist and develop between the imperialist industrial nations and undeveloped agrarian lands (a magnified expression of the inner disproportions between industry and agriculture). These disproportions are not new, but they become increasingly greater, more acute and dangerous; they aggravate the economic and political antagonisms of imperialism, and deepen not only the cyclical crisis but the crisis of the capitalist system. Capitalism is now threatened by the world market, with whose growth it was interlocked. The forces which sustained capitalist production now turn into their opposites and become its antagonists.

the problem of complex or collective economic forms calling for "planning" are involved in industrial concentration and monopoly. For industrial concentration, with its downward pressure on the rate of profit because of the higher composition of capital and its results, *tends to make capitalist production unprofitable*. The new collective forms of production are not merely a negation of capitalist individualism, they are *a negation of profit itself*. Capitalist "controls" and "planning" are, however, an effort to insure profit and accumulation, whose limited conditions are the cause of the crisis. Their purpose is not to liberate the forces of production and consumption, but to prevent transformation of the new economic forms into a socialist society. This is the crisis of the capitalist system, a direct result of the forces underlying accumulation and concentration. . . .

Recovery is not necessarily quick and prosperity substantial if no "controls" interfere with the cyclical factors. Comparatively few "controls" existed in 1873-79, yet the depression was both deep and prolonged. Recovery may be slow if the previous overexpansion, the accumulation of capital, was unusually great: it takes so much longer to liquidate disproportions and create new opportunities for accumulation. But the decisive element is the action of the non-cyclical long-time factors of expansion, which affect recovery and decide the character of prosperity.

Whether it takes a longer or shorter time, all that the cyclical factors of recovery can do is to restore an "equilibrium" and set the stage for an upsurge of prosperity. But the upsurge is not inevitable. For the equilibrium produced by the cyclical factors is necessarily on a lower level than the preceding prosperity. It revives the demand for capital goods, but mainly for replacements. This increases production and the rate of profit only on a small scale, however, as it does not permit of an *ascending* accumulation of capital, the indispensable condition for substantial prosperity. Production, employment, and wages still remain low, particularly as the productivity of labor rises. What is necessary is an increasing output and absorption of capital goods made possible by the *development of old and new industries*: an upswing in the long-time factors of expansion.

The output of capital goods creates purchasing power (wages, part of salaries and profits) which is spent on consumption goods. Production moves upward. This permits of an increasing production and capitalization of surplus value, the making of profits and their conversion into capital. In all pre-war depressions (and in the United States up to 1923) there was always a large potential demand for new capital goods

in the unexhausted possibilities for expansion of old and new industries: mechanization of handicrafts or incompletely mechanized industries, building construction, railroads, agricultural machinery, electric power, telephone and telegraph, aluminum, rayon, and many others. These industries needed large masses of capital goods, whose production created purchasing power and demand for other goods while they threw no goods of their own upon the market or did so only eventually. (Where goods were thrown upon the market but were wholly new they did not compete with other goods, for their production itself created purchasing power. Where "new" goods supplanted goods formerly produced by handicrafts, the resulting diversion of buying was more than offset by the purchasing power created in producing the necessary capital goods.) The demand for new capital goods was stimulated, in the case of the highly industrial nations of Europe, by the export of capital, *i. e.*, capital equipment, to economically undeveloped regions; and, in the case of the United States, by the large masses of capital goods absorbed in developing the inner continental areas, particularly in urban construction, railroads, and agriculture. As the output of *new* capital goods began to rise, its creation of purchasing power and demand quickened the cyclical factors of recovery by encouraging the older industries to invest in more replacements; as the output rose still higher, creating more purchasing power and demand, the older industries were forced to invest in *new* capital goods to meet the needs of larger markets. The resulting expansion of industry as a whole was greater than the rise in the productivity of labor, and was accompanied by higher employment and wages (often, but not always, including higher real wages). More workers employed meant more production of surplus value; more markets meant more realization of surplus value as profit; more output and absorption of capital goods, which embody capitalist claims to ownership and income, meant more conversion of profit into capital. Accumulation was active and prosperity surged upward.

The decisive part, accordingly, was played by the non-cyclical factors of long-time expansion. These factors are identified with the upswing of capitalism. But neither capitalism nor its upswing is eternal, for they develop conditions which exhaust the long-time factors of expansion, limit the accumulation of capital, and set in motion the forces of economic decline.

A minor aspect of capitalist decline is the cyclical limitation it imposes upon replacements. In American plants, in the spring of 1934, 20% of the equipment was in a condition of primary obsolescence, but

there was no urge to replace it as the unused capacity was still larger, because of the depth of the depression, the previous overexpansion, and the disproportions created by incomplete liquidation and postponed recovery. "Until business becomes much better," said engineers, "and until all equipment of a plant needs to be called into production, the installation of new machinery will lag."<sup>3</sup> The productivity of labor rose, but mainly as a result of the intensification of labor. Nor was the situation much improved by NRA loans for the purchase of equipment (a repetition of European experience). Replacements may start independently of the non-cyclical factors, but only these can initiate the substantial recovery which makes possible increasingly larger replacements.

The major aspect of decline involves a scarcity of those long-time factors of expansion which alone stimulate an increasing output and absorption of capital goods. This seriously limits the accumulation of capital. And if the conditions of accumulation are limited, recovery *must* be incomplete and prosperity *must* be on a lower level.

Development in the older industries? But the possibilities are restricted by two conditions: the low level of production and consumption and the existing excess capacity. All industries are overequipped, particularly those with the largest masses of capital equipment. . . . The automobile industry, in 1932, had a capacity of 9,000,000 cars and an output of 2,000,000;<sup>4</sup> it may reach the 1929 peak, but the industry cannot become the great force for expansion it was in the preceding years. . . . Nor can electric power repeat its 1922-29 expansion: industry is almost completely electrified, the crisis in agriculture prevents realization of its electrical needs, electrification of the railroads is remote, and an excess capacity already exists of at least 25%, which will be greatly increased by three power projects now nearing completion.<sup>5</sup> . . . Railroads, one of the mightiest forces of expansion from the 1840's to 1900, were still developing up to the World War; but in 1929 their mileage and the number of locomotives and cars were smaller than in 1919,<sup>6</sup> absorption of capital goods being limited to replacements. . . . Nor is there any hope of expansion in the telephone and telegraph industry. . . . Conditions are worse in the consumption goods industries which depend upon mass demand, for this demand can rise only if purchasing power is created by an increasing output and absorption of capital goods and the resulting industrial expansion. . . . Agriculture offers small prospects for any large absorption of capital equipment, because of the downward movement in exports and limitation of output: essential demand will be limited to more



efficient replacements. . . . An upswing in building construction, in spite of the low level of activity in the depression years, is prevented by overexpansion, in relation to the level of business, in industrial and commercial structures, including moving picture theatres and garages, and by the low income of the masses (whose housing needs, if they could be satisfied, would stimulate construction for years to come). . . . Serious limitations, moreover, are imposed upon expansion in the older industries by the slowing down, if not exhaustion, of industrialization in new or economically backward regions.

Development in the newer or wholly new industries? But the possibilities are small: no wholly new industries are in sight, most of the newer industries are comparatively highly developed, and those which are not are either unimportant or are hampered by general economic conditions. . . . Radio was already overdeveloped before the depression; television is still a thing of the future, nor does it offer much demand for capital goods. . . . The production of mechanical refrigerators and aircraft in 1929 employed only 31,590 workers, who received \$48,096,000 in wages.<sup>7</sup> Neither industry is apt to develop on a large scale. And the development of air transportation can never absorb as much capital equipment as railroads and automobiles. . . . The air-conditioning industry, usually considered the most promising, manufactures a product whose use depends primarily upon a high level of prosperity. Factories and commercial buildings will not install the equipment if business is depressed and profits low. "The market in the residential field is not very promising. Initial costs constitute too high a percentage of total apartment rentals or home values except in the highest price classes. The industry appears to contain no inherent advantages which might cause it to run counter to the general trend of business during the next few years."<sup>8</sup> . . . Teletypesetters represent only a small capital equipment; the number of compositors displaced is greater than the workers employed in their production, and this is not likely to be offset by an upswing in the printing industry. . . . Factory-built dwellings, in addition to standardizing monotony and ugliness and creating large areas of potential slums, will result in an enormous displacement of workers in the building trades. . . . Decentralization of industry is limited by entrenched vested interests; it makes plants obsolete and reduces railroad freight haulage, and would, moreover, result in a lower demand for capital equipment than the existing industrial set-up. . . . Not only are the prospects meagre of new industries arising, it is very unlikely, if they do, that they will absorb such large amounts of capital equipment as railroads, tele-



phones, electric power, and automobiles. This is a decisive factor, for upon the amount of capital goods absorbed by new industries depends the scope of the resulting industrial expansion.

These conditions, imposing serious limitations upon the accumulation of capital, exclude the possibility of any real upsurge of prosperity. Nor can the limitations be overcome by mere technological change. While some urge a moratorium on invention, others urge more invention as the means to restore prosperity: contradictory counsels to escape contradictions! Indignantly denying that science is responsible for the crisis, and ignoring the social relations of capitalist production which may turn beneficent science into its malignant opposite, two great scientists stake their hopes upon invention. "Science has made jobs, not taken them away," says Karl T. Compton, with Robert A. Millikan emphasizing the point: "Every labor-saving device creates in general as many, oftentimes more, jobs than it destroys."<sup>9</sup> This was measurably true (allowing for the increase in normal unemployment) only in the epoch of the upswing of capitalism, *when technology completely revolutionized the structure of old industries or created gigantic new industries*. The great demand for equipment stimulated the accumulation of capital and industrial expansion, with a resulting increase in employment because production rose more than the productivity of labor. There are no immediate prospects of technological changes developing which might create gigantic new industries requiring large masses of capital equipment. This appeared clearly from reports at a conference of capitalists, scientists, and educators, where the theme was: "This country is *not* about to pass into a period of stagnation which means decay," for "science will liberate mankind."<sup>10</sup> But the anticipated technological changes were all minor and in the nature of refinements or gadgets: airplanes powered from ground stations, moving pictures in color, and radio-tape newspapers with "road maps, fashion designs, comic strips for the children, and no end of things, for whatever a pen can portray facsimile radio will handle." Where fundamental changes were anticipated in the technological basis of older industries, they would, unlike similar changes in the past, absorb *fewer* capital goods than existing equipment, *fewer* even than mere replacements. This difference between the older and the newer technology profoundly alters its economic significance: *technology no longer tends to revolutionize the basis of old industries or to create gigantic new industries*, with their great demands for new capital goods and the resulting industrial expansion and accumulation.

For the immediate future, at least, technological change will mainly

express itself in piecemeal replacement of old equipment with more efficient equipment. This must necessarily mean disemployment. *Equipment is more efficient and profitable only if it is labor saving, if its use displaces more workers than are employed in its production.* Displacement was mainly relative in the epoch of the upswing of capitalism because the curve of production and accumulation was upward: displaced and newly available workers were absorbed by expansion in the output of capital goods and, consequently, the expansion of industry in general. Displacement is absolute in the epoch of decline because the curve of production and accumulation is downward: displaced and newly available workers are no longer absorbed by expansion in the output of capital goods, which are now limited to replacements. A prosperity based upon replacements means that depression levels of production move upward, but not much: industry tends to contract, not to expand. The result is disemployment, for the productivity of labor rises more than production.\*

What happens when technological progress is not accompanied by an increase in output while the productivity of labor rises, is graphically illustrated by the flour milling industry: value output in 1923 and 1929 was the same, but workers decreased from 35,194 to 27,154 and wages from \$41,704,000 to \$35,409,000, while profits and overhead costs (value added by manufacturing) increased from \$162 million to \$188 million.<sup>11</sup> Technological progress and the productivity of labor moved upward during the depression. The chemical industries strikingly reduced labor costs; replacement of obsolete equipment in the steel industry means installing a smaller number of more efficient machines; a Diesel oil locomotive reduces hourly labor costs from \$2.75 to 99c, or 64%.<sup>12</sup> New equipment increasingly tends to become apparatus and automatic machinery: the resulting higher composition of capital lowers still more the ratio of wages to profits and overhead costs. While, in 1929, the ratio was 36% for manufactures as a whole, it was only 26% in blast furnaces, 19.6% in the chemical industries (11.1% in alcohol), 19% in gas manufacture, 18.8% in flour milling, and 11.6% in tobacco products.<sup>13</sup> Industry moves toward the lowest

\* Agriculture also is limited to more efficient replacements, adversely affecting the capital goods industries and the farming population itself. Formerly the results of the intensive development of agriculture—higher productivity of labor and displacement—were offset by extensive expansion in territory and markets. The slowing down of this expansion and increasing productivity in 1920–30 displaced nearly 1,000,000 persons from the farms. Now displacement is accelerated by the deliberate or “planned” limitation of output. The small and poorer farmers, the American peasants, must bear the burdens.

ratios of labor to capital and of wages to profits and overhead costs. The other aspects of this movement, of the constantly higher composition of capital, is the absolute displacement of labor on a large scale unless it is offset by an accelerated accumulation of capital and industrial expansion, in which the basic factor is an increasing output and absorption of capital goods. Accelerated accumulation is excluded by the conditions of capitalist decline. The situation is aggravated, moreover, as industry lowers costs more and more through scientific management (mainly the intensification of labor) and rationalization. This means that a smaller quantity of labor and wages sets in motion the same quantity of fixed capital and a larger quantity of raw materials resulting in *a higher composition of capital without the compensation of an absorption of new capital goods*. The productivity of labor rises more than production. Disemployment must increase.

Efforts to stimulate the output and absorption of capital goods were largely unsuccessful, in spite of government loans for equipment and NRA ballyhoo to create credit expansion by forcing bankers to lend and producers to borrow. (As if ballyhoo can overcome the iron pressure of economic conditions!) The NRA, moreover, contradicted itself: it urged modernization of plants, yet many of the codes provided for the prevention of excess capacity. This "planned limitation of output" policy, characteristic of the NRA and other forms of state capitalism, necessarily means a lower output of capital goods. It may yield a higher rate of profit, but at the cost of lower production, employment, and wages.

More important were the efforts to stimulate building construction by means of a program of public works. All the arguments for public works make their starting point the fact that the curve of demand for capital goods is downward and that industry cannot revive by its own efforts: clear indications of capitalist decline! "The policy of public works," according to one economist, "is in accord with economic laws, except that *the initiative of private enterprise* for long-term investments *is replaced by an act of the state*." But he simultaneously points out the limiting conditions: "*The public investments must first be supported and later replaced by private investments, or the recovery will not develop into prosperity.*"<sup>14</sup> Accumulation of capital is the basis of prosperity. In the past construction was an important factor in the upsurge of prosperity because it represented an accumulation of capital and was identified with long-time factors of expansion. Public works are not, however, essentially an accumulation of capital; this makes them objectionable to the capitalists, particularly if they are self-

liquidating and compete with existing facilities. If the costs of public works are met with issues of bonds, they represent a piling up of capital claims, which are a burden upon government revenues, production, *and profits*; if with immediate taxation, the situation is worse from a capitalist angle, for not even capital claims are piled up. And inflation as means of payment is dangerous. Public works can aid recovery only if the stimulus they create is invigorated by the working of long-time factors of expansion. But it is because these factors are not working that governments resort to public works.

A program of public works might serve useful economic and social ends. But they increase taxation: hence the opposition. The opposition is most bitter where the projects are self-liquidating, and particularly if they are dwellings for the masses. Yet at least half the people need better housing, even on the basis of existing low standards of "decency." It is an accumulated deficiency, not simply a result of the depression. "American housing, ever since the period of industrialization, has never reached the lower half of the income groups except in the form of low-grade, inferior dwellings, slums in conception as well as final result."<sup>15</sup> The Public Works Administration low-cost housing program, inadequate as it was, was virtually abandoned because of bitter opposition by realty interests. Two conditions are necessary to insure better dwellings for the masses: a substantial government subsidy or a substantial rise in wages, or both. Subsidy is opposed by realty and other property interests: it would mean more taxation and make existing "homes" obsolescent and unprofitable. And wages are sinking, not rising: embattled capitalist interests ruthlessly oppose substantial wages because they lower the rate of profit. The situation is hopeless: if the workers were unable to secure "decent" housing in the epoch of the upswing of capitalism, the chances are worse than negligible in the epoch of decline. Where there is some slum clearance, the new houses are beyond the paying capacity of the workers.

Public works degenerate into mere relief schemes and are whittled down to a minimum. Cash relief is replaced by low-paid forced labor. The Civil Works projects were mainly waste: private business interests objected to the competition of useful projects. Of the money voted for public works, \$238 million was diverted to naval construction (in addition to direct naval appropriations in 1929-33 of \$235 million),<sup>16</sup> while housing for the masses was neglected. The Civilian Conservation Corps enrolled 290,000 persons to work in the national forests at nominal wages: an American equivalent of the German "labor



armies," whose workers "get their keep but little or no wages."<sup>17</sup> In both cases, moreover, definite militarization is involved: preparation of the youth for coming slaughters. Actual public works tend to become public buildings and "luxury" highways. This assumes its most revealing and brutal forms under fascism. Of Italian developments one bourgeois observer says:

"Fascism has to its credit no great housing schemes to relieve congestion and provide better homes for the working classes. . . . Slum areas have been cleared in order to make room for grandiose conceptions such as the great boulevard running from the Capitol to the Coliseum in Rome or the new park at Santa Lucia in Naples, but no real provision has been made for rehousing the population displaced. In this respect fascist history is one of unrelieved indifference and brutality. . . . Fascist architectural achievements are to be found in such things as exhibition buildings, palaces for the industrial and other corporations, squares in the principal cities where the fascist leaders can have an auditorium sufficiently large for their eloquence, innumerable post-offices . . . railway stations . . . decoration to the materialistic and brutally imperialistic system of fascism."<sup>18</sup>

Nor is this the devil's work of lesser breeds outside the law of an "exceptional" American civilization: it appears clearly, and still more clearly in its ominous implications, in the policy and activity of the Public Works Administration. . . .

The decreasing demand for capital goods is strongly affected by the slowing down of industrialization in new, economically undeveloped regions and the downward movement in population growth. The importance of the *extensive* expansion of capitalist production is evident in the enormous demand for railroad, building construction, and agricultural equipment created by development of the inner continental areas of the United States. Population growth provided an increasing mass of exploitable workers and consumers. Development of new regions absorbed increasing masses of capital goods, created new purchasing power and markets, and stimulated expansion in the older industries. Accumulation and production moved upward. Now the downward movement in population growth limits the number of exploitable workers and consumers. The slowing down, if not exhaustion, of industrialization in new regions restricts the movement of expansion, particularly in the construction and service industries which absorb large masses of capital but throw no goods upon the market. The result is a falling output of capital goods. Accumulation is limited. Prosperity is depressed.



This slowing down of *extensive* expansion represents an exhaustion of progressive economic forces.\* But only on a capitalist basis. For there are regions in the United States, and still more in the world at large, which lag woefully behind economically: another expression of the uneven development of capitalism. They need construction, electric light and power, transportation facilities, industrial plants. These developments are now hampered, however, by the conditions of *intensive* capitalist expansion, involving the inner relations under which surplus value is produced and realized.

The *extensive* expansion of capitalist production stimulates the development of large-scale industry and wider markets. Large-scale industry, with its higher productivity of labor, permits an increasing production of surplus value. Wider markets permit an increasing realization of surplus value as profit. The result is an *intensive* expansion of capitalist production, *i. e.*, a constantly higher composition of capital, which constantly lowers the ratio of labor to capital and of wages to output, overhead costs, and profits. The gap becomes greater between production and employment and production and consumption. For capital claims mount. An increase in production absorbs fewer and fewer workers, until displacement is absolute. Relative wages, the share of labor in the proceeds of industry, become smaller. Markets and output shrink, excess capacity mounts. The production and realization of surplus value move downward.

Under these conditions it may be unprofitable to industrialize particular regions or to establish particular industries in those regions. Such development was easier in the past, when industry had a lower composition of capital, with lower capital claims, greater labor needs, and higher relative wages. Now the higher composition of capital means only a small employment of workers and only a small distribution of mass purchasing power. The creation of markets may be in-

\* Exploitable workers and consumers are further limited by the mass disemployment characteristic of capitalist decline. It is an ironical comment on the Malthusian "law" that the surplus population of unemployed and unemployable workers assumes increasingly larger proportions precisely when population is moving downward and agriculture is choked by its own surplus. It is not a problem of the pressure of population upon limited means of subsistence. It is a problem of the pressure of comparatively unlimited means of subsistence upon production, price, and profit. The abundance of means of subsistence, a result of the higher productivity of labor, tends to force down prices and profits: hence production is limited and disemployment and the surplus population increase. Every mode of production has its own law of population. *But in no mode of production except the capitalist does the development and productivity of industry create a surplus population.*

sufficient and excess capacity prove disastrous. (Industrialization may be hampered, moreover, by the fact that it offers ruinous competition to the older regions.) These limitations apply to many undeveloped regions in the United States. They apply still more to colonial and other economically undeveloped lands: industrialization is backward and disproportional partly because of imperialist exploitation, partly because the high composition of capital, with its insufficient creation of employment and mass purchasing power, prevents the development of many large-scale industries on a capitalist basis.\* (The limitations are overcome, in the case of construction and service enterprises, by making payment on capital claims with exports of foodstuffs and raw materials; overexpansion results, however, and not only creates a disproportional economy, but is responsible for the world crisis in agriculture and mining.) In the epoch of the upswing of capitalism, *extensive* expansion stimulated *intensive* expansion; they react upon and limit one another in the epoch of decline.

The downward movement in capitalist expansion means a *decreasing* output of capital goods. But capitalist production depends upon an *increasing* output. Hence accumulation is limited. Prosperity is depressed. The results are lower production, mass disemployment, and falling wages for the workers, a sharpening of the permanent crisis in agriculture, contraction of opportunities for professional people. It means lower standards of living for the majority of the population.

While recognizing the importance of capital goods, some bourgeois economists insist that a decreasing demand may be offset by a new equilibrium. One of them says:

"There is danger of overstressing capital formation and of reaching the erroneous conclusion that full employment of the factors of production is quite impossible without forever elongating the process of production. If it should turn out that new investment on any considerable scale should not be in the picture for some years ahead, we may expect revival to be delayed. But there is no reason to doubt that

\* These conditions, if Russia had not overthrown capitalism and had been drawn within the orbit of capitalist decline, would have severely hampered industrialization. Instead, under the dictatorship of the proletariat, industrialization proceeds more rapidly than was the case in capitalist countries (emphasized during the depression by falling capitalist output and rising Soviet output) *because of the socialist relations of production*: abolition of private ownership and profit and the resulting planned economy. Only socialism can assure free, rapid, and proportional industrialization in colonial and semi-colonial countries, where imperialist domination, moreover, transforms the struggle of workers and peasants into a struggle against capitalism.

the shift can eventually be made to a new balance in which production [capital] goods industries would be relatively less significant.”<sup>19</sup>

What is, however, the “overstressing of capital formation” but an admission that the accumulation of capital is the driving force of capitalist production? Accumulation on an ascending scale is possible only by “elongating” the process of production: more production and realization of surplus value, more conversion of profit into capital by means of an increasing output and absorption of capital goods, the embodiment of capitalist claims to ownership and income.

The contradictions, antagonisms, and crises produced by an ascending accumulation of capital are all aggravated by a *descending* accumulation. For capitalist production cannot stand still: it must move up or down.

What becomes of the unemployed workers under the conditions of a “new balance in which the capital goods industries are relatively less significant”? According to one bourgeois observer: “The manufacture of machinery and industrial equipment and the construction of new plants of all sorts have always employed so large a proportion of the American population that no ordinary reduction in hours could get them reemployed.”<sup>20</sup> Capitalists oppose any real reduction in hours and increase in wages, for that would decidedly lower the rate of profit. (In spite of all the ballyhoo, the NRA codes reduced only the very longest hours, precisely as they “raised” only the very lowest wages. Of 393 codes, all but 29 call for weekly hours of forty or more, up to fifty-four.<sup>21</sup> The average was probably forty-five hours up.) If the workers are unemployed, they produce no surplus value. Nor do they consume much. This means a contraction of employment in the consumption goods industries, with smaller production and realization of surplus value. The rate of profit moves downward. Within the “new balance in which capital goods industries are relatively less significant” *the falling rate of profit is no longer offset by an increasing accumulation of capital*; as intensive expansion still goes on, resulting in a constantly higher composition of capital and more downward pressure on the rate of profit, conditions arise tending to *abolish profit altogether*.

The tendency of capitalist production to abolish profit arises out of the accumulation of capital itself, in the conditions under which surplus value is produced, realized as profit, and converted into capital. *It is interlocked with the higher productivity of labor and the abundance it creates or is capable of creating.*

Accumulation, the making of profit and its conversion into capital, is the driving force of capitalist production. Profit is realized surplus value.

Surplus value is unpaid labor, the appropriation of a surplus product for which the workers get no payment. Capital is profit converted into capital goods, whose ownership embodies capitalist claims to income. More surplus value is produced by increasing the amount of unpaid labor of the workers, more surplus value is realized as profit by the expansion of markets, and more profit is converted into capital by increasing the proportion of workers engaged in producing capital goods. Observe, however, the contradictions and antagonisms inherent in the process of accumulation:

An increase in surplus value (other than by exploiting more workers) is achieved by raising its rate, *i.e.*, lowering the amount of paid labor, or wages, incorporated in a commodity. This means a higher productivity of labor, involving a higher composition of capital: relatively fewer workers receiving smaller relative wages set in motion a larger quantity of equipment and raw materials and produce a greater output of commodities.

The expansion of markets, necessary for an increasing realization of surplus value as profit, is accompanied by lower prices and higher profits. This is accomplished by lowering the values of commodities, decreasing the total amount of labor incorporated in a commodity while increasing the unpaid labor, or surplus value. But one result is a relative limitation of consumption among the workers, who numerically become a constantly more important factor in the market.

The conversion of profit into capital means an increasing output and absorption of capital goods. This throws a constantly greater mass of commodities upon the market. As the productive forces of society move upward, however, the forces of consumption move relatively downward. An excess capacity is created, bound up with the higher composition of capital, and results in the tendency of the rate of profit to fall.

A falling rate of profit is overcome by an accelerated accumulation of capital, involving an increase in the rate (and mass) of surplus value, a lowering of the values or prices of commodities, and an expansion of the market. But as this means a still higher composition of capital, the final result is an intensified downward pressure on the rate of profit.

The movement is animated by the tendency of the forces which sustain capitalist production to turn into their opposites and become its antagonists. There are recurrent cyclical crises and depressions, economic breakdowns which represent *a relative inability of production to develop further on a capitalist basis*. The breakdowns are overcome by accumulation on an enlarged scale. But the moment comes when



this is no longer possible: the conditions of accumulation are increasingly limited, as every recovery and upward movement of prosperity mean a still higher composition of capital and an aggravation of the contradictions of accumulation. *The relative inability of production to develop further on a capitalist basis tends to become absolute.*

This is the basic contradiction: The more productive labor becomes and the more abundant the commodities it produces, the more important are the workers for the market. But the higher productivity of labor, because of the higher composition of capital, is accompanied by constantly lower relative wages and the displacement of labor: the consuming power of the workers shrinks as the output of industry mounts.

The contradiction was partly and temporarily overcome as long as there was an increasing output of capital goods and the accompanying industrial expansion. A constantly larger proportion of workers was engaged in the production of capital goods, the capitalization of surplus value and profit. The consumer demand of these workers created other demand and stimulated the consumption goods industries. Accumulation moved upward and the fall in the rate of profit was measurably overcome. But this is altered by the decreasing output of capital goods, resulting from exhaustion of the long-time factors of expansion, the limitation of mass consumption, and a highly developed industry which cannot profitably use all its existing capacity. Production, realization, and conversion of surplus value are limited. Accumulation moves downward and the rate of profit tends more sharply to fall.

Now the movement assumes catastrophic forms. Displacement of labor becomes absolute and the surplus population grows. The falling rate of profit was overcome by an accelerated accumulation of capital; this involved an increase in the *rate* of surplus value, or raising the degree of exploitation of the workers, and an increase in the *mass* of surplus value, or exploiting constantly more workers. As industry employs fewer workers the mass of surplus value must decrease, for there are limits to an increase in the rate of surplus value. *Disemployed workers produce no surplus value and limit the accumulation of capital.* The tendency of the rate of profit to fall is no longer overcome by more production and realization of surplus value. Not only does the rate of profit move downward disastrously, but, still worse, the mass of profits tends to shrink.

Underlying the whole process of accumulation, with its increasingly abundant output of industry, is a lowering of the individual values of



commodities, as a decreasing amount of labor is incorporated in their production because of the higher productivity of labor. Prices tend to become unprofitable, *a result of the capitalist drive to increase output, sales, and profits by lowering values and prices.* Output, actual or potential, becomes so great that it can be absorbed only by a great increase in consumption, particularly among the workers. But the workers are largely excluded because the abundance is a creation of the higher productivity of labor, which is interlocked with higher capital claims, lower relative wages, and the displacement of labor by mechanical equipment. *The whole tendency of capitalist production is to displace workers who consume with mechanical equipment which does not consume.* But who *is* to consume the abundance? The equipment does not. The workers cannot, because of low wages and disemployment.\* For the workers to consume more is unprofitable: it means more employment and higher wages, and offsets the "economy" of displacing labor with equipment. *By its greed for surplus value capitalist production develops the conditions which increasingly make surplus value unrealizable as profit.* The pressure of abundance, actual or potential, breaks down prices and makes them unprofitable. The rate of profit moves downward disastrously. Capitalist production reacts against abundance and resorts to "planned limitation" of output.

This is the crisis of the capitalist system, arising out of its economic law of motion: the accumulation of capital. For the more it proceeds the more accumulation limits the conditions of its being. The more capitalist production drives after surplus value the more its production becomes limited. The more capitalist production drives after profit the more it becomes a will-o'-the-wisp. The more capitalist production drives after the realization of surplus value as profit and the conversion of profit into capital, the more accumulation tends to move downward. It is the final expression of the fact that the forces which sustained capitalist production now turn into their opposites and become its antagonists. . . .

As, from the viewpoint of distribution, the crisis of the capitalist system appears as a crisis of consumption, the liberals cry: "Release the forces of consumption! Let the people consume!" Their argument is thus tersely expressed:

\* The workers are the fundamental factor in this problem of consumption, precisely as production itself is fundamental. Only a release of the forces of consumption among the workers can release these forces among the farmers and the useful functional groups of the middle class. This is the direct opposite of the situation in the epoch of the upswing of capitalism.

"It seems self-evident that under the set-up of large-scale industry, more is to be gained by the community through low prices, high wages, and a large production at a small profit margin than by the contrary policy."<sup>22</sup>

Undoubtedly. But who is "the community"? It is an aggregation of antagonistic classes dominated by the capitalist class, whose interests are *not* identical with those of "the community." They clash on all fundamental issues. Production itself creates purchasing power, but it can do so under capitalism only if it also creates profit and permits its conversion into capital. Where the output of capital goods is decreasing and the output of consumption goods is increasing, the policy of "low prices, high wages, and a high production at a small profit margin" works in the direction of abolishing profit altogether. For, at a particular moment in the development of capitalist production, a condition arises where it is no longer possible to offset a smaller rate of profit with a greater mass of profits, for the mass itself begins to shrink. The capitalists realize this empirically, if the liberals do not theoretically. Hence the enraged opposition to the "convincing" argument of more mass purchasing power and consumption. Liberals want to solve the problem on the basis of the relations of distribution, of consumption, but these relations are a function of the relations of production: under capitalism, consumption is permissible only if it yields a profit. In order to maintain profit, capitalism represses not only the prevailing abundance, it represses still more the potential abundance inherent in industry. The struggle to release the forces of consumption is necessarily a class struggle against the class-economic relations of production based upon private ownership and profit.

For the "crisis of abundance" involves a struggle between an old and a new social order: capitalist individualism and socialist collectivism. While consumption under capitalism is still individual, production has become collective. *But collective or social production has so enormously increased the productivity of labor and of industry that its output can be absorbed only collectively, by the socialization of consumption.* This is the objective basis of socialism. Only a practically "free" distribution of products, made possible by the abolition of private ownership and profit, can absorb the abundance of which industry is capable: only production for use, not profit. The alternative is limitation of production, mass disemployment, and starvation. And so highly developed are the social forces of production that they not only make comparatively simple the transition to socialism, under which distribution of products is in accordance to one's labor, but socialism would

speedily move into communism, under which distribution is according to one's needs.\* For the basis of communism is an economy where labor has become a minimum in comparison with the mechanical equipment of production, with the resulting abundance and leisure freely and fully consumable by all the people. . . .

Capitalism and its class representatives will not release the forces of abundance and abolish profit. They can be released only by socialism and its class representative, the revolutionary proletariat, mobilizing its own forces and the forces of the other exploited elements of society for the overthrow of capitalism. So capitalism resorts to the "planned limitation" of output to preserve some measure of profit. *Thus capitalism, the historical creator of abundance, becomes the enemy of abundance.* Limitation of production is the fundamental objective of the "planning" of state capitalism (and fascism). This appears clearly in the NRA, which permits, in the words of the Cotton Textile Code, "appropriate steps to keep production in reasonable balance with demand."<sup>23</sup> Every now and then the mills close down to maintain prices and profits. There is no policy to stimulate and realize demand. Workers are thrown out of work because of the abundance their labor creates.

The results of "planned limitation" of output are disemployment, falling wages, and mass misery. Discontent and class action are aroused among the workers (and other exploited elements, potential allies of the workers). Repression is, accordingly, another fundamental objective of state capitalism (and fascism): to prevent class action and its development into a revolutionary struggle for the overthrow of capitalism. This appears clearly in the NRA, which started with the most liberal pretensions and proceeded to deflate labor: to permit the imposition of company unions and of a more centralized authority of the capitalists over the workers, to prevent and break strikes, and to prepare for compulsory arbitration. These developments, and their promise of sterner repression to come, are aspects of the struggle for power arising out of the crisis of capitalism.

Nor is a potential revolt of the masses the only danger. For limitation of production is a desperate shift and results in an enormous

\* Socialist construction in the United States, after the conquest of power, would be much easier than in the Soviet Union, which inherited a very backward economy. History thrust a twofold task upon the Bolsheviks. They were compelled to concentrate upon industrialization (accomplished by capitalism itself in the more highly developed countries) simultaneously with the development of socialist relations. This enormously complicated the problems of socialist construction. The other great complication is the Union's isolation in a world of capitalist states.

aggravation of the contradictions and antagonisms inherent in the capitalist economy. Conflicts within the bourgeoisie become sharper—over prices and competition, over foreign trade policy. Agriculture and industry clash more sharply. The limited conditions of production and consumption, and of profit making, exclude the possibility of all capitals surviving. Destruction and depreciation of capital proceeds on an unparalleled scale: an essential condition of a higher rate of profit where the mass of profit tends to shrink. The smaller enterprises are hit hardest, and concentration and monopoly grow, but the larger enterprises do not wholly escape. A new equilibrium is created, a depressed prosperity with lower production and mass disemployment. It is an extremely unstable equilibrium. The rate of profit tends more sharply to fall, as it is maintained primarily by price-fixing and other measures which limit production and consumption. Because of its pent-up forces the capitalist economy becomes more explosive. Strangling in the abundance of which its productive forces are capable, capitalism struggles more desperately for expansion in foreign markets to absorb surplus goods and capital.

It is the pressure of abundance inherent in large-scale industry and its tendency to abolish profit which force capitalism to expansion in foreign markets. This disposes of all the arguments for a "closed economic system" or *Autarkie*. As capitalism is strangling in its own abundance, it must export goods and capital to preserve profit and the rate of profit, to survive as a system. A "closed" economy would aggravate all the contradictions and antagonisms of capitalist production, tend more strongly to abolish profit. ("There are no reasons to think," says an American advocate of *Autarkie*, "that the world will not get along at least as well under such an economic system as it did under international capitalism, *although the transition will probably be accompanied by a lowering in the standards of life of vast numbers.*")<sup>24</sup> A "closed" system, moreover, under the conditions of the world today, particularly if it takes the form of, *e. g.*, self-sufficiency within the British Empire, is an act of aggression against other nations. It is, finally, as reactionary as limitation of production, the alternative to socialization of consumption: for the alternative to capitalist "internationalism" is not an impossible or stagnant *Autarkie*, but the co-operative, creative internationalism of socialism and communism.

But a "closed economic system" is incompatible with capitalist expansion, and expansion is imperative. So the nations resort to an intensified struggle for foreign markets. . . . Fascist Italy forces lower living standards upon the masses of workers and peasants (and lower



bourgeoisie) to stimulate exports. While the people eat less bread, wheat is exported. . . . Fascist Germany rejects *Autarkie* and struggles desperately against economic isolation. A foreign trade council is set up, exports are stressed and subsidized, and living standards among the mass of the people are forced down to stimulate exports. . . . Both Italy and Germany prepare for imperialist conquests, which are urged as indispensable to national well-being. . . . Britain and Japan engage in an open trade war, with the active participation of the governments; other trade wars go on, become fiercer, create the conditions of resort to arms. . . . The struggle for foreign markets is accompanied by more protection of the home markets: capitalist nations want to sell more than they buy.<sup>25</sup>

The United States pursues a similar policy. . . . At first the measures of the Roosevelt Administration, concentrating on the home market, were greeted as steps toward the "new era" of a "closed" system. But these hopes were rudely shattered when depreciation of the currency was used to strike at Britain and France, the most brutal form of waging trade wars. . . . The next stage was marked by concentration on Latin America and the Montevideo Conference, directed primarily against Britain. It was a conference of economic vassals dominated by the United States: protests by the Cuban and Mexican delegations were disregarded. This stage was marked by adoption of NRA codes exempting exports from the provisions for "fair" competition, by the demands upon Congress to protect "American manufacturers from the more intense competition of Japan in Latin-American markets and in the Philippines," by the recognition that limitation of output in agriculture is no compensation for foreign markets and the American demand for larger wheat export quotas under an international agreement, by more protection of the home market and measures to strengthen the powers of the President for waging tariff wars.<sup>26</sup> . . . The third stage in the development of the Roosevelt Administration was the emergence of a sharper imperialist policy, marked by a challenge to Japan over the exploitation of China and the deliberate use of the NRA to strengthen war preparations.

Expansion in foreign markets to-day is necessarily entangled with imperialism. The conviction is prevalent in reactionary circles, and it may yet develop the "liberal" and "labor" ideology of social imperialism, that imperialism is the only solution of the American crisis, the only means of restoring prosperity. But the general crisis and decline of capitalism must necessarily limit the development of American imperialism. Other capitalist nations are imperialist and rivalry is in-



tensified in the struggle for a redivision of the world, while the international long-time factors of expansion are restricted by imperialism itself. International communism and the Soviet Union are world powers, thrust across the path of imperialism. The magnitude of the American economy requires a tremendous imperialist expansion seriously to affect prosperity under the conditions of decline. Pre-war Britain exported up to 50% of its capital and derived nearly 10% of its national income from overseas investments; the United States, in 1923-29, derived not much over 1% of its national income from foreign investment and exported less than one-sixth of its capital.<sup>27</sup> Considering the world situation, *it is impossible for the American export of capital, particularly as it becomes mainly an export of interest, to develop on a scale sufficiently large to stimulate an upsurge of prosperity.* All imperialism can accomplish is to raise the rate of profit of some monopolist combinations, to aggrandize the financial oligarchs, to prolong the agony of a dying social order and prevent the birth of a new order. The price? Mass disemployment and starvation, if on a slightly lower level, the oppressive burdens of increasing armaments, and the barbarism of a new and greater world war: all strengthening the elements of economic and cultural decline and decay.

The decline and decay of capitalism do not exclude a revival of prosperity. For the cyclical movement goes on and contradictions are still "solved" by the alternation of prosperity and depression. But on a lower level: prosperity is more incomplete than formerly, accompanied by limitation of production and disemployment, developing swiftly toward a new crisis, while depression is more prolonged and grinding. As in post-war Germany, the upswings are shorter and the downswings longer. The tendency is toward a condition of chronic depression, interrupted by fitful revivals of prosperity. Cyclical fluctuations "irritate" and exhaust capitalism, intensify the crisis and decay of the system: for cycles are now an aspect of decline and not of growth.

Nor do the decline and decay of capitalism exclude all possibility of growth. There were elements of decline in the upswing of capitalism, but the general tendency was upward; there are elements of growth in the decline of capitalism, but the general tendency is downward. Decline and growth do not exclude each other, said Lenin in 1916: "In the epoch of imperialism, now one, now another of these tendencies is displayed, to a greater or less degree by certain branches of industry, by certain strata of the bourgeoisie, and by individual countries. As a whole capitalism is growing more rapidly, but not only is this growth becoming more and more uneven, the unevenness is also

showing itself in particular in the decay of the countries which are richest in capital (such as England)."<sup>28</sup> The forecast is more than fulfilled, with changes which emphasize its truth. Now capitalism is declining more rapidly, with growth becoming more rare and uneven. Now decline and decay are most clearly manifested by American capitalism, the mightiest in the world, which in the pre-1929 post-war period experienced an upsurge of prosperity (with, however, the elements of decline developing on a potentially large scale, most clearly apparent in the absolute displacement of labor and the growth of normal unemployment). More than ever is it a case of dog eat dog. Expansion in particular industries is primarily at the expense of other industries: the eventual result is an intensification of the inner crisis of the capitalist system, because of the limited conditions of production and consumption. Expansion of particular countries is primarily at the expense of other countries: the eventual result is an intensification of the world crisis of the capitalist system, because of the limited conditions of imperialism to-day.

The lower level of prosperity means lower levels of employment, wages, and standards of living. It means an increasing misery for the masses. This conception of Marx, abandoned by his reformist "disciples" and ridiculed by the bourgeois economists, is a dialectical, not an absolute tendency: it does not move in a straight line, but contradictorily and unevenly. Marx himself analyzed the opposing forces (among them the labor movement). The tendency toward increasing misery is interlocked with the surplus population; it is inherent in capitalist production itself, and arises out of the conditions created by the higher composition of capital, particularly the absolute displacement of labor and the lowering of wages.

The industrial revolution was accompanied by increasing misery for the workers because the productivity of labor rose more than production. Displacement of labor was absolute, hours rose while wages fell, and a surplus population was created.

In the epoch of the upswing of capitalism the tendency toward increasing misery was checked because production rose more than the productivity of labor. Displacement of labor was primarily relative, wages rose while working hours fell, and some of the worst industrial abuses were wiped out. An offset, however, was the growing surplus population and increasing misery in countries being industrialized and in colonial lands.

The tendency toward increasing misery resumes its full force in the epoch of capitalist decline, because expansion is limited and the pro-

ductivity of labor moves upward while production moves downward. Displacement of labor is now absolute. Disemployment and the surplus population grow. Wages and standards of living fall. Starvation mounts in the midst of abundance. Imperialist wars draw in larger masses of people and become more destructive and agonizing. Out of decline, decay, and misery arises the scourge of fascism, which is capitalism using its vilest elements and means to preserve its mastery.

Increasing misery is now not only on a larger scale than in the earlier stage of capitalism, there are qualitative differences of the utmost class-economic importance.

The increasing misery of the industrial revolution was accompanied by economic progress: liberation of the productive forces of society. It was an increasing misery limited to the industrial and agrarian masses, and it was compatible with rising standards of living in other classes.

The increasing misery of the decline of capitalism is accompanied by economic reaction: repression of the productive forces of society. It is an increasing misery *not* limited to the industrial and agrarian masses, for it draws within its orbit large groups of the lower bourgeoisie, the "white collar" workers, and the professionals: technicians, teachers, physicians, intellectuals. Unlike the situation in earlier stages of capitalism, their fate is now bound up with that of the directly productive workers.

Under the impact of all these developments, dominant institutional and ideological relations break down. The class-economic crisis becomes a class-ideological crisis. Old and new clash more consciously and aggressively. Depressions are now a revolutionary force, for they mark another shattering of the hopes aroused by incomplete and short-lived prosperity. Thrust into action for elemental rights and on elemental issues, the proletariat and its allies broaden their action under pressure of the struggle itself and the opposition of reactionary forces. Into the arena of social war is thrown the ideological influence of the Soviet Union, where socialism is being built up while the capitalist world sinks deeper in the mire of economic and cultural decline and decay. As the crisis sharpens in all its aspects the struggle for power becomes sharper: evasions and compromises avail not, it is either communism and progress or fascism and reaction.

Imperialism makes the crisis and the struggle for power international. For the crisis of the capitalist system in the highly industrial nations affects the economically backward lands under their control. More and more the interests of colonial lands clash with those of the

"mother" country. This is particularly apparent in the British empire, a disproportion of the first magnitude, within whose limits is the monstrous disproportion of the hegemony of Britain, which is shrinking economically and politically. India struggles for independence, Canada and Australia increasingly lean toward the United States. Disintegration of the empire arouses the imperialist appetites of other nations and prepares a new struggle for the world's redivision. As capitalism declines the ruling class increasingly turns to Cæsarism (whose modern form is fascism), a system which merely levies class tribute independent of economic function or progress: the Cæsarism or tribute aspects of imperialism are emphasized and it becomes a major sustaining force of the new reaction. So the struggle against capitalism is necessarily a struggle against imperialism. Colonial peoples revolt against their imperialist oppressors: the "race" war, an ideological screen for imperialism, is transformed into a class war. Colonial revolts become part of the struggle for power in the "mother" country: they react upon and invigorate one another, both aspects of the world revolution.

The revolutionary struggle is international, as socialism itself is international. The immediate forms of the struggle vary in time and place, from colonial liberation movements to the direct proletarian struggle for power and intermediate forms determined by the stage of the crisis and the balance of class power; but all forms of the struggle are unified by international communism into *one* offensive for the annihilation of capitalism and imperialism, and for socialism, the only alternative to economic and cultural decline and decay.

## State Capitalism, Planning, and Fascism

CAPITALIST production itself creates the objective basis of socialism, within the old class-economic relations. It comprises three factors: two economic and one class. The economic factors are the collective forms of production (both industrial and, increasingly, agricultural) and the abundance modern industry is capable of producing. The class factor is the industrial proletariat, a propertiless class in physical possession of production and the carrier of socialism.\*

The objective forms of socialism are everywhere apparent in the modern economy. Cooperative mass organization of labor within industry, collective corporate enterprise and its far-flung interests, separation of ownership and management and the collective performance of managerial functions by hired employees: all these are objective forms of socialism within the old relations of individual ownership and appropriation. This is emphasized by chain stores in distribution and large-scale farms in agriculture, whose collective forms of activity are undermining what were considered the impregnable strongholds of petty individual enterprise. Collective enterprise everywhere beats down the individual enterprise upon which rest the social relations of capitalist production.

The older and the newer economic relations of production are antagonistic, an objective clash between two social orders. This clash appears most clearly and tragically in the abundance, actual or potential, which is repressed because it threatens to abolish profit. Collective forms of production, and their accompanying technical-economic changes, result in an enormous increase in the productivity of labor and the creation of abundance. The abundance makes possible and necessary the collective or socialist distribution of goods, a *socialization*

\* The proletariat is the typical functional class created by capitalist industry. Small producers disappear. Industrial capitalists are replaced by financial capitalists who are wholly predatory and by multitudes of stockholders who perform no socially useful function. The increasing industrialization of agriculture undermines the class of farmers and points to the day when the farmer, as farmer, will disappear. Another typical creation are the technical, supervisory, and managerial employees in corporate industry. But they are not a class, merely functional groups which, now dependent upon capitalist masters, will merge into the working class under socialism.



*of consumption to correspond with the objective socialization of production.* Capitalism rejects this possibility and necessity: they mean its own abolition.

For release of the forces of consumption, its socialization, requires expropriation of private ownership and replacement of production for profit with production for use: new *social* relations of production. This alone permits full utilization of the productive forces of society, their development unrestricted by class interests and the contradictions and antagonisms they create. Industry is integrated, managed as a whole, not as scattered parts disregarding and clashing with one another. Considerations of private interest or profit interfere neither with production nor consumption. Rational planning of industry is possible, with the exclusive aim of meeting community needs. The abundance of industry is released on an immensely enlarged scale.\*

As this means the abolition of capitalism, it is forcibly resisted by the dominant class interests. There is no mechanical, gradual, peaceful transition to a new social order. The objective clash of the old and the new becomes a struggle of classes, a struggle for power between the classes representing the old and the new.

The older relations of production are represented by the capitalist class, which rallies to itself all the elements of the old order. To maintain its ascendancy, the capitalist class must repress the forces of production and consumption and their onward movement toward socialism. This throws the whole of society into convulsions, accompanied by limitation of output, mass disemployment, and lower standards of living. It means economic and cultural decline and decay.

The newer relations of production are represented by the industrial proletariat, which rallies to itself all the elements of the new order. Its propertiless condition and collective forms of existence, and the class exploitation with which they are identified, thrust the proletariat

\* Edwin G. Nourse, *America's Capacity to Produce* (1934), p. 429, estimates that in 1929, by utilizing the 19% unused productive capacity and unused, or unemployed, labor, the national income might have been increased by \$15,000 million; this, if equally distributed, meant adding \$1,000, or over 50%, to the income of every one of 15,000,000 families receiving the lowest incomes—enough to save all of them from poverty. But the abundance industry is capable of creating, if freed of its capitalist fetters, is still greater. (1) Nourse's estimate of unused capacity is an absolute minimum, and it is now, moreover, much larger. (2) Only a small part of industry was, and is, using the most efficient available equipment. (3) Equipment is capable of still greater efficiency by liberating and more planfully directing the technological application of science. (4) Abundance, or its purpose, fuller and more creative living, may be augmented by eliminating the capitalist production of useless, meretricious, and injurious products in favor of their opposites.

into objective opposition to capitalism. Among the earliest conscious manifestations of this opposition is the trade-union struggle for improved working conditions and the imposition of minor controls upon the employer in the workshop. It becomes increasingly clearer, particularly as the pressure of capitalist decline weighs more heavily upon the proletariat (and its potential allies, the other exploited elements of society) that the class interests of the proletariat are realizable only by destruction of the older relations of production. This means socialism, of which the proletariat is the carrier: for the proletariat is the typical class creation of capitalist production, its propertiless condition deprives it, although in physical possession of production, of any property stake in the existing order, and its collective forms of existence are potential of the collectivism of socialism. But the proletariat cannot realize socialism without abolishing itself as a class and along with this the transitional state of the proletarian dictatorship: both are replaced by the community of integrally organized producers.

The struggle for power aims to get control of the state or to retain control. Like all states, the bourgeois state is an organ of class rule and suppression, under capitalist control, enmeshed in all the class-economic and exploiting relations of the existing order. No class gives up control of the state: it must be forcibly dispossessed. Wresting control of the state from the capitalist class makes it possible for the revolutionary proletariat to overthrow capitalism and suppress the old ruling class, to destroy the old social relations and create the new. The dominant capitalist interests use all means, of an increasingly forcible nature as the struggle sharpens, to retain control of the state for a twofold purpose: to suppress the proletariat and its allies in the struggle for power, and to augment the *economic* activity of the state, using *collective economic means* to prevent a complete breakdown of the outworn, decaying, wholly reactionary relations of capitalist production based upon individual ownership and appropriation.

Although its ideal was "that government is best which governs least," capitalism constantly enlarges the scope and use of state power. In addition to suppressing the masses and carrying on war, those indispensables of the class society which is capitalism, the bourgeois state augments its intervention in purely economic affairs. More and more collective state action was required by the complex relations and problems arising out of capitalist expansion. The governments of most industrial nations began to "protect" the home market and newly developing industries. Such gigantic enterprises as the railroads called for state intervention in the form of financial aid or government

ownership. Ownership came to include other enterprises for various reasons: their unprofitable character, lack of private capital, as a source of government revenue, in the interests of the economy as a whole, or for reasons of political expediency (as, *e. g.*, municipal ownership of certain service enterprises). State intervention was often mandatory to "reconcile" or suppress, if necessary, conflicting capitalist interests, if their embittered clash threatened the class. The state intervened to "regulate" and "coordinate" the relations of monopoly capitalism: either by legislation adjusting monopolist combinations to one another and the whole of capitalism, as in the United States; or by promoting the formation of cartels, as in Germany. Imperialism meant increasing state intervention, including the purely economic, to promote capitalist expansion in world markets and the making of higher profits. Intervention was also demanded by the increasing complexity of world economic relations, for capitalist production thrust itself beyond national barriers. As individual enterprise was limited and collective enterprise began to predominate, as expansion in particular industries or in general slowed down, more state intervention was necessary, either government ownership or regulation, to sustain production and the accumulation of capital.

In the United States, which started with the most limited of governments and is still (in spite of developing state capitalism) considered free of the "statism" of benighted Europe, the reality is expressed in the defeat of the Jeffersonian idea of government by the Hamiltonian. Agrarian democrats objected to state aid for industry and finance, but not for agriculture and development of the public domain. The American Plan of the 1820's urged legislation and public money to aid capitalist enterprise. Government built canals and aided commerce with other internal improvements. As industrial capitalism consolidated itself after the Civil War, state powers were enlarged. Class antagonisms became more acute and the state needed more repressive powers. Congress was absorbed by the tariff and the grants of public money to railroads. An economic foreign policy began to develop, for large-scale industry needed exports. It also needed the breaking down of state lines and concentration of power in the Federal government. From the 1880's on, legislation concerned itself more and more with the trusts and railroads, with "reconciling" warring groups of capitalists, with government commissions to "regulate" the increasingly complex forms of economic activity and the class-economic antagonisms it created. During and after the 1900's the economic or "dollar" diplomacy of imperialism flourished like the green bay tree. The

Panama Canal, for which private enterprise clamored, was built by the public enterprise and money of the Federal government. Theodore Roosevelt proposed "administrative control" of industry by the President (anticipation of the NRA!), the merging of monopoly capitalism and the state. The Jeffersonian Woodrow Wilson realized his "new freedom" in the form of more state intervention in economic affairs. During the World War the government "went into business" with a vengeance; after the war, it gave increasing subsidies to shipping and aviation and "aid" to agriculture. Only social legislation and government ownership were neglected: in these fields "rugged individualism" insisted state intervention meant "the end" of the republic. "Statism" expressed itself in an enormous bureaucracy increasingly performing economic functions.

The term state capitalism was originally used to designate only the government ownership of economic enterprises. But its meaning is much wider and more significant. Government ownership is the least developed form of state intervention in industry, particularly in the United States, where, however, other forms of intervention are highly developed. *State capitalism includes all forms of government intervention in economic activity to aid capitalism to overcome the contradictions and antagonisms which increasingly torment its being.* The intervention is *always* within the relations of capitalist property and exploitation, of the subjection of labor to capital. It was necessary, in the epoch of the upswing of capitalism, primarily because the newer collective forms of production called for the more collective action of the state to "regulate" the increasingly complex and sensitive relations of industry. The collective action of state capitalism is still more necessary in the epoch of decline because a crisis of the capitalist system itself is engendered by the sharper clash between the newer collective forms of production and the older relations of individual ownership and appropriation. *Both stages and all forms of state capitalism are animated by the necessity and use of the collective action of the state to "strengthen" capitalism and "compensate" the anarchy of production.* (But this is, of course, of a limited and predatory nature, as the state is itself entangled in the class-economic relations involved in the anarchy of capitalist production.)

State capitalism had some progressive aspects in the epoch of capitalist upswing. It encouraged and permitted more rapid economic development. Petty-bourgeois and labor pressure forced the adoption of reforms: the minor concessions of social legislation to "placate" labor opposition, many economic measures in the interests of capitalism itself



but bitterly opposed by the more stupidly reactionary forces. These aspects of state capitalism were greeted by many liberals and the reformist socialists as the progressive unfoldment of a new social order. In reality, the result was a strengthening of monopoly capitalism and imperialism, for the progressive measures were merely *one small part* of a development which consolidated the newer forms of capitalism and augmented the powers of its state.

Many liberals and the reformist socialists still consider state capitalism the progressive unfoldment of a new social order. The theory envisages an "organized capitalism" which leads from monopoly to state capitalism and socialism: the theory of a gradual "growing into" socialism on the basis of the capitalist state. If state capitalism, in the epoch of upswing, had *some* progressive aspects, it was because capitalist society was still capable of progress and had need of it to maintain itself. But monopoly state capitalism is wholly reactionary, for in the epoch of decline capitalism is capable only of reaction and has need of it to maintain itself.

State capitalism develops alongside of industrial and monopoly capitalism, not as a separate subsequent stage. Where, moreover, monopoly arose out of the underlying progressive integration of industry, monopoly state capitalism arises out of the reactionary necessity of preserving the decaying old relations of production and crushing the new. Production and consumption are repressed. Technological progress is limited if not rejected. Public money is wastefully poured into corporate industry. (The continuity of development in state capitalism appears in the fact that the Reconstruction Finance Corporation was created by the "reactionary" Hoover, not the "liberal" Roosevelt; by December 31, 1932, after eleven months' operation, it had advanced \$1,315 million to corporations, mainly banks and railroads.)<sup>1</sup> If Congress in the 1860's-70's poured public money into the private pockets of the railroad buccaneers, the country at least got railroads; now it gets a small measure of relief and a much larger measure of decline and decay. The tendency of monopoly state capitalism is more thoroughly to merge industry and the state, to make more direct the control of the state by monopoly capitalism. The Iron and Steel Institute was made the code authority under the NRA. "There is no mystery about this code," said one magnate. "It just means that the steel industry is going to be run as it has always been run, only more so."<sup>2</sup> According to the president of the United States Chamber of Commerce, the NRA makes industry "in some measure master of its own fate."<sup>3</sup> But this is accomplished by the intervention of the state, whose powers and



bureaucracy tend toward the monstrous and all-devouring. As economic decline is not overcome, an increasingly important aspect of the tighter amalgam of monopoly capitalism and the state becomes the preparation for imperialist aggression and war. This includes erecting more barriers around one's own nation and breaking down the barriers of others: in France they call these efforts a form of "directed economy"! <sup>4</sup> Of this aspect of state capitalism, that sturdy old liberal, John A. Hobson, says:

"Staple industries will be organized with state assistance to operate as units of production and of marketing within an empire which shall be as self-sufficing as is practicable. Tariffs, subsidies, control of investment, joint industrial councils, and arbitration boards will be adapted to this end. . . . An isolated British Empire, were it economically feasible, would not be tolerated by other nations. . . . The discrimination now practiced against foreigners, the earmarking of imperial raw materials and markets for exclusive imperial use, are already arousing indignation in foreign trading circles accustomed to free access to these resources. Our empire possesses something like a monopoly of certain raw materials—tungsten, for example—which are essential to the efficiency of machine industry. It is inconceivable that foreign nations on the same level of industrial development as Britain should acquiesce in the proposed policy of imperial monopoly or discrimination." <sup>5</sup>

Thus monopoly state capitalism is wholly reactionary. It means more deliberate and sharper aggression against the newer relations arising out of the collective forms of production and the international character of modern industry. *The dominant class interests use a bastardized socialism to prevent the coming of socialism, to "stabilize" the disintegration of the old order.* State capitalism is not a form of transition to socialism but the direct opposite.\* It is a form of the capitalist struggle to retain power.

As a necessary consequence of its reactionary nature, state capitalism develops measures for the "better" control of labor. Government intervenes more consistently, directly, and sharply in labor disputes: an

\* Centralization of the means of production in the state by the dictatorship of the proletariat is not state capitalism. The class nature of the state is wholly different, capitalist ownership of industry and its class exploitation are abolished, and society moves onward to socialism and communism. State centralization of industry is, moreover, temporary, its duration depending primarily on the dictatorship's economic heritage and the speed of socialist construction. Socialism means the utmost of economic decentralization within the limits of unified planning, eventually replacing the state with the community of the integrally organized producers.

old policy grows more teeth. The NRA began with "friendly" gestures to labor. It quickly became a means of preventing and "settling" strikes. It warned labor against strikes, sanctioned company unions, moved toward the liquidation of labor and government or "corporate" unions akin to fascism. This was the result after nearly one year, according to a liberal exponent of what the NRA "might" be:

"The position of organized labor is more uncertain and stands in greater jeopardy than at any time since the Recovery Act became law. Labor may be forced to accept compulsory arbitration within the NRA code machinery. Compulsory arbitration means the abrogation of the right to strike for any purpose. . . . How could it come to pass that a policy admittedly favorable to labor and the rights of collective bargaining could result in leaving those rights without effective safeguards? The trouble is, of course, that the Administration has had no firm labor policy. It has vacillated constantly and has abandoned one principle after another. . . . Early in his term of office, President Roosevelt declared that 'there should be no discord and dispute—the workers of this country have rights under this law—no aggression is now necessary to obtain those rights.' It is now quite clear not only that strikes are frequently necessary if labor is to gain its rights, but that the government cannot be expected to bargain for labor. . . . The indecision has already given reactionary industrialists too much support. They, too, want labor disputes brought under the jurisdiction of the NRA code machinery. Undoubtedly this will be the beginning of a concerted assault on organized labor unless the administration immediately asserts itself and backs up the rights of collective bargaining promised labor." <sup>6</sup>

To attribute the reaction against labor to "indecision" and expect the government to back up labor, is a total misunderstanding of the class nature of both state capitalism and the state itself. They *must* act against labor. State capitalism proposes to save the old order. It tries to "unify" the nation and "balance" class-economic antagonisms (to "stabilize" capitalist breakdown and for purposes of imperialist aggression); the means adopted, because of the class nature of the state, are for it to merge with monopoly capitalism more tightly, subordinate all other classes, and "institutionalize" the subjection of labor. Formal democracy still prevails. So state capitalism may make minor concessions to labor, within the limits of capitalist decline, engage in maneuvers, give "legal" recognition to the rights of labor, speak of class collaboration. But the aim is increasingly to limit the concrete democratic rights of the workers: the right to organize and strike, to

act as an independent class, to struggle for a new social order. This is done by government control of labor, creating a whole network of institutional arrangements (as in pre-Hitler Germany) for the compulsory settlement of industrial disputes and the limitation of independent labor action. The labor policy of state capitalism is an expression of the capitalist struggle to retain power—to prevent labor developing *its own* struggle to seize power.

State capitalism's "recognition" of labor is restricted, tends to put unions under control of the state, is accompanied by "democratic" browbeating of labor's representatives (who are easily and even willingly browbeaten, because only conservative labor leaders are recognized). This appeared clearly in a discussion between William Green, President of the American Federation of Labor, and General Hugh Johnson, NRA Administrator, at a session of "critics" where 2,000 businessmen were present:

GREEN: There must be a change in policy; minimum wages must be established through negotiation with employees, before the codes are approved.

JOHNSON [*sharply*]: Have you ever proposed that to me?

GREEN [*hesitantly*]: I think I did.

JOHNSON [*more sharply*]: I don't remember it. Isn't it a fact that all codes have been passed on by the Labor Advisory Board and most of them approved?

GREEN [*flustered, backing down*]: Well, I don't want to get in a controversy over it, but if you said approved by the chairman of the Advisory Board I'd say you were right. What I meant was that, in the primary formation of codes, employers and NRA deputies met with no labor men present.

BUSINESSMEN'S CHORUS [*belligerently*]: No!

JOHNSON [*peremptorily*]: Each deputy has a labor advisor.

BUSINESSMEN'S CHORUS [*delightedly*]: That's right.

GREEN [*weakly*]: He may be some man employed by the Labor Advisory Board, but we don't regard him as speaking for labor.

BUSINESSMEN'S CHORUS [*laughing uproariously*]: Why not! <sup>7</sup>

The courage of the labor representative: "I don't want to get in a controversy"! The contempt of General Johnson and the businessmen! This is class collaboration in action. . . .

The class purposes of state capitalism determine the character of the economic "planning" with which it is identified. The planning consists merely of more state intervention under the pressure of deepening contradictions and antagonisms, of artful dodges here and there to

prevent the capitalist system from completely breaking down. *The fundamental element of the planning of state capitalism is the "planned limitation" of output*: it must be that, because the immediate form of expression of the danger which threatens the capitalist system is the abundance which modern industry is capable of creating. Yet this aspect of the problem is wholly overlooked by the most intelligent and persuasive of the liberal exponents of national planning:

"The true objective of planning is not stabilization at any static level, but regularized growth. It is the full utilization of our powers of production, which are continually growing, in order that our consumption may grow correspondingly. To this end the purchasing power of the masses must be maintained and must expand. Viewed from the other side, then, the objective is the progressive raising of the purchasing power and the standard of living of the people to the full extent which our powers of production make possible. Increased production and a raised standard of living must go hand in hand; neither end can be gained without the other."<sup>8</sup>

"Neither end can be gained without the other." Exactly. But it is extremely naïve to expect *capitalist* planning to accept that as its "true" objective. It means the suicide of capitalism. For it is precisely the *prevention* of an upward moving balance between production and consumption, to save the rate of profit from falling disastrously, that causes the crisis and decline of capitalism.

State capitalism resorts to "planning" to save the old order, to prevent a collapse of capitalism. The liberal ballyhoo for planning urges it in the interest of higher standards of living, the stabilization of production and employment, and the elimination of cyclical depressions, arguing that otherwise capitalism will collapse. The approach is different but the purpose is the same: save capitalism. The liberal "planners" accept the fundamental relations of capitalist production. "Strangely enough," observes one bourgeois economist, "though looking forward to a collectivist organization with 'control from the top,' such analyses are by way of showing how the capitalist system can be made to work under appropriate currency and investment controls."<sup>9</sup> The liberal ballyhoo not only accepts capitalist relations but confuses the whole meaning of planning. Thus Dr. Charles A. Beard tries to prove that planning is capitalist and inherent in capitalism:

"Of inner necessity technology is rational and planful. The engineer must conform to the inexorable laws of force and mechanics. . . . As technology advances there will be a corresponding contraction of the spheres controlled by guesswork and rule-of-thumb procedure. This



means, of course, a continuous expansion of the planned zone of economic activity. . . . Planning is already here; it is inherent in our technological civilization. It would have gone forward inexorably, even if the Russian Revolution had not borrowed it and dramatized it.\* . . . Our giant industrial corporations, though harassed by politics, bear witness to the efficacy of large-scale planning.”<sup>10</sup>

Technological planning *within the workshop* is as old as machine industry. “Technology is rational and planful,” but capitalist production as a whole is economically irrational and socially unplanful. The most scientific planning within the workshop is accompanied by the anarchy of production in general. This is also true of large-scale planning *within the corporation*, which is limited and stultified by profit-making and monopoly abuses. The contradiction between technological-corporate planning and the socially unplanful character of the capitalist economy becomes another unsettling factor in capitalist production. The enormous development of American large-scale corporate planning in 1922–29 was accompanied by an upflare of unplanful economic warfare in the shape of the “new competition,” by a sharpening

\* Dr. Beard drives home this point about planning: “There is nothing Russian about its origin. Indeed, planning of economy was anathema to the Bolsheviks until, facing the task of feeding enraged multitudes, they laid aside Marx, took up Frederick Winslow Taylor, and borrowed foreign technology to save their political skins.” But the liberal ballyhoo for planning arose out of two significant, contrasting facts: developing socialism in the Soviet Union, with its planned economy, and the most catastrophic depression in the history of capitalism, aggravating its decline and decay. Dr. Beard, moreover, cannot cite chapter and verse for his assertion that “planning of economy was anathema to the Bolsheviks,” which is equivalent to saying they rejected socialism. Lenin spoke of the social planning of production in 1916, before the Bolshevik conquest of power; the Soviet Union from the first began economic planning within the limits and requirements of the prevailing stage of the revolution, until the realization of a fully planned economy. Nor can Dr. Beard cite chapter and verse for the assertion that the Bolsheviks “laid Marx aside.” The Soviet’s planning an abandonment of Marx! Yet Marx, while bourgeois political economy was idealizing an unreal free competition, analyzed the increasing concentration and socialization of production and scientifically projected the planned economy of socialism. Where, moreover, is there any reference by Taylor to national economic planning? (Lenin accepted the scientific aspects of Taylorism but rejected its “refined cruelty of exploitation.”) It is simply malicious to say that the Bolsheviks “borrowed foreign technology.” The United States was once an agrarian nation: it borrowed foreign technology. Cultural borrowing is a universal phenomena. Does Dr. Beard imply that the Bolsheviks, before they began to borrow, expected to build socialism without modern technology? Or that socialism should scrap the prevailing technology and start from scratch? The historian here forgets historical continuity. Socialism develops out of capitalism, builds upon the technical-economic basis of capitalism, to which it imparts new purposes and higher forms.



of the contradictions of accumulation, of the antagonistic movement of production and consumption, profits and wages, by an aggravation of the socially unplanful character of capitalist production which engendered the worst depression in American history. The conditions, limitations, and contradictions of technological-corporate planning embody the necessity and possibility of unified "national" or social planning of industry. But this, in turn, is an expression of the collective forms of production, of the incompatibility of the socialization of production with the relations of individual ownership and appropriation. Social planning is realizable only by releasing the newer collective forms from the fetters of the older relations, which means socialism. Hence technological-corporate planning cannot, under capitalism, develop into larger unified planning.

Planning is proposed to prevent cyclical depressions; but these are inherent in the relations of capitalist production, and the relations are retained by planning. The American War Industries Board is often cited to prove that "planning" may prevent depression. But the Board did nothing and could do nothing in that direction. It merely ascertained the economic war needs, decided what constituted "essential" and "non-essential" industries, determined allocation of raw materials and transportation, and controlled the prices of certain commodities. Profit-making was not interfered with: it was encouraged. The war provided an enormous and insatiable market, which paid largely with paper claims upon future generations, and postponed the coming of the cyclical crisis inherent in the accumulation of capital. But the crisis and depression appeared two years after the peace. State capitalism and its planning were most highly developed in pre-1929 Germany. But they sharpened instead of moderated the cyclical fluctuations:

"The two post-inflation cycles appear to have been most exceptional in their amplitudes of rise and fall, in the shortness of the first cycle and in the long phase of contraction of the second. . . . Partial control of the price system may have accelerated the cyclical movements of prices that were not regulated, and even of the physical volume of production and employment."<sup>11</sup>

Cyclical disturbances are a condition of accumulation, interlocked with *all* the relations of capitalist production. But state capitalism merely intervenes piecemeal. The liberal planners either offer magic keys, "control" this or "plan" that; or, when their proposals are more comprehensive, they fight shy of the crucial issues. Ten points are basic

in any program to abolish the economic maladjustments underlying cyclical disturbances:

1. Maintain the balance between production and consumption on a progressively ascending scale.
2. Control profits, *i.e.*, determine the amount of the proceeds of industry needed to produce capital goods (equipment, construction, public improvements).\*
3. Control prices, not in the sense of price-fixing or of stabilization, but to make the abundance of industry available to all and insure proportional economic development.
4. Prevent disproportionate expansion or contraction in the different spheres of production, in order not to throw them out of gear with one another; this includes "balancing" industry and agriculture.
5. Adjust, according to plan, the output of capital goods and consumption goods.
6. Increase the consumer purchasing income of all functional groups on the basis of the increase in productivity and production; abolition, of course, of unemployment arising from technical-economic causes.
7. Make the distribution of income more equal, which means releasing the forces of consumption.
8. Abolish speculation of all kinds.
9. Control investment, its amount and flow, according to plan and balanced economic needs.
10. Control and planfully regulate all other phases of the national

\* Profit disappears under socialism. This does not mean, of course, a disappearance of the production of machinery and apparatus, transportation equipment, and construction. But these economic factors cease being capital, which is merely a social relation yielding the power of exploitation, and become social wealth. What happens is that the creation of "capital" is transformed into a conscious social apportionment of the labor necessary to produce the machinery and apparatus, transportation equipment, and construction in accord with the needs and objectives of the planned economy. The process is stripped of all its exploiting relations, of all those antagonistic and contradictory aspects which produce social-economic disturbances and disguise the fact that capital goods come into being simply by assigning so much social labor to their production. "If we assume that society were not capitalist, but communist, then the money capital would be entirely eliminated and with it the disguises which it carries into transactions. The question is then simply reduced to the problem that society must calculate beforehand how much labor, means of production and means of subsistence it can utilize without injury for such lines of activity as, for instance, the building of railroads, which do not furnish any means of production or subsistence, or any useful thing, for a long time, a year or more, while they require labor and means of production and subsistence out of the annual social production. But in capitalist society, where social intelligence does not act until after the fact, great disturbances will and must occur under these circumstances." Karl Marx, *Capital*, v. II, pp. 361-62.

economy which might create disturbances, including foreign trade.

What this means, it is clear, is abolition of the social relations of capitalist production to insure creative planning and the ending of cyclical disturbances. For all the forces of maladjustment which must be controlled arise out of the production of surplus value, its realization as profit, and the conversion of profit into capital. Real planning means control of profits in the sense of eliminating them. Capitalism resists. The NRA has become an apparatus for making higher profits. In England capitalists (particularly the coal barons) prefer stagnation and decline to control of profits. In Germany and Italy capitalism resorted to fascism in defense of profits. So the liberal exponents of planning dodge the issue of control of profits and investment. Stuart Chase recognizes that control of investment is vital to planning, but admits that not much control can be imposed "without, one suspects, reaping a whirlwind," and throws up his hands. He suggests "broadcasting" information on which industries are overbuilt or underbuilt, urges "more careful" allocation of bank loans, and piously insists that "stock values must not pitch up and down like a canoe on the heaving level of market quotations." No more! He drives the point home:

"It will be a long day before a planning board can tell a man what he shall do with his surplus funds in this republic, but his sturdy individualism might not be outraged if there were an authority to tell him where his money had a chance of securing earning power over a term of years, and where it would be simply thrown away."<sup>12</sup>

Thus "planning" comes to depend upon making investment more secure and profitable. Investors unite, rally to planning and make more money! Nothing is accomplished, in the sense of planned prevention of depression, by telling a man where his investments may be more secure and profitable. Cyclical disturbances are not caused by investors "throwing away" their money. In fact, in the welter of contradictions which is capitalism, unprofitable investment contributes to maintaining the balance between production and consumption by decreasing profits or wiping out capital claims but increasing consumer purchasing power.

There are four stages or types of economic planning, separate and distinct, although merging in one another. They are:

1. *Technical-economic planning* within the workshop, either in an independent plant or in plants under the same corporate control. This, the most thorough planning under capitalism, is accompanied by cruelty to workers and is hampered by the profit system.

2. *Corporate planning*, of which there are three forms. The first is planning within independent corporations: deciding relations among subsidiary plants, determining and assigning output, organizing the sale or purchase of commodities in far-flung markets, planning expansion in old or new fields. Another form is planning by the holding company in control of many subsidiary corporations. The third form is the planning involved in the relations of the banks to industry. All these forms of planning are limited by the conditions of their origin and development. Corporate planning is accompanied by the output of useless goods, excess plant capacity and competition, the ruthless struggle for profits, and the wastes of merchandising. The holding company is primarily an agency for the exploitation of subsidiaries. Banking houses "plan" the flow of capital on a profit-yielding basis, and upset the economic equilibrium by encouraging overinvestment and speculation. Finally, the most highly developed corporate planning is an aspect of monopoly capitalism, which has other aspects: intensified exploitation of labor, predatory control by the financial oligarchy, decline, imperialism, and war.

3. *National economic planning*, all forms of which recognize the limitations of corporate planning. The state, in one way or another, intervenes to aid industry. It is *aid*, *not planning*; and it is the *capitalist* state and *capitalist* industry. National economic planning assumes different forms in different countries and in different stages of development. *But it is always aid, never unified planning; it becomes all the more necessary the more highly developed is the corporate planning of monopoly capitalism, which is identified with economic decline and decay, forcing greater aid and intervention by the state.* There is no attempt to plan the whole national economy, merely piecemeal aid to supplement private capitalist enterprise where its resources or powers are inadequate or it is in a desperate condition. The state cannot plan, for it is enmeshed in the social relations of capitalist production, and it acts to *preserve* those relations. Under the conditions of decline, when it becomes more desperately necessary to use collective state action to preserve the relations of individual ownership and appropriation, the planning of state capitalism includes limitation of output, the lowering of wages, and a planned offensive against labor. Capitalism uses a bastardized socialism to repress the productive forces of society, to oppress the working masses, to prevent the emergence and realization of socialism.

4. *Planned economy*, the necessary accompaniment of the release of the collective forms and forces of production from their capitalist



fetters, of socialism and communism. In a system of planned economy the emphasis is on the *new* social relations of production, the socialization of production and consumption. *All* phases of economic activity are under planful regulation and control, including the unity of industry and agriculture. Production is for use, not profit.

A planned economy is possible only after the state power is forcibly wrested from the dominant bourgeois class, only after the dictatorship of the proletariat has destroyed the old social relations of production and set in motion the creation of the new. Liberals insist "we should learn" from the planned economy of the Soviet Union, but they separate it from its class-political accompaniments: they want "democracy" and peaceful change, they object to dictatorship. But planned economy functions in the Soviet Union *only* because of the dictatorship of the proletariat, *only* because the dictatorship has overthrown capitalism, crushed the exploiters and prevents their reappearance, *only* because the dictatorship permits socialization of all economic activity. The liberals object—and accept capitalism, which, of course, is sweet, reasonable, democratic (*cf.* exploitation, forcible suppression of strikes, denial of civil liberties, disemployment and all its terrible results, fascism and its suppression of the concrete democratic rights of the workers, imperialism, war). Liberals depend upon capitalism, have faith in capitalism, fly to the defense of capitalism in its moments of danger.

The economic argument for national planning is overwhelming. Capitalist industry is complex, dependent upon the balanced functioning of innumerable parts; production and distribution are collective and require collective control. These are the objective conditions of planning. But every major economic development has two aspects, the economic and the class-political, and they are inseparable. The class-political aspect of the objective socialization of production and the necessity of planning is the *threat to the property relations of the dominant class interests*. So the planning of state capitalism proceeds within the limits and purposes of capitalism.

In addition to planning, state capitalism ornaments itself with the plumes of reformism. The Roosevelt Administration pretentiously proposes a whole series of reforms—to realize nothing less than "security"! But when the NRA got into action they talked much about the reforms—unemployment and health insurance, better housing, old age pensions, higher wages. Nothing was done. So Roosevelt talked some more about them one year later. Rugged individualism scorned the reforms when capitalism was well; now it is sick, and they talk



about them to impose upon the masses. But the conditioning factors of reform have changed. In the epoch of capitalist upswing, reforms were necessary and possible because of economic growth; under the conditions of capitalist decline, they are unnecessary and impossible. For reforms, with profits moving downward and mass discontent and consciousness moving upward, threaten capitalism economically and politically. Capitalism in decline reacts against reform, as it reacts against progress in general: it moves toward the abolition of reform and its achievements. The workers of Vienna were proud of their model dwellings, built by a socialist administration. This monument to reform was battered down by the cannon of the capitalist state in its efforts to crush the militant workers. The dwellings were patched up. But the workers were thrown out. The scum of reaction moved in. State capitalism limits reform to relief, represses the concrete democratic rights of the workers, and prepares their destruction by fascism. It took Mussolini several years to wipe out the workers' gains; it took Hitler several months. Progress under fascism! The fascist overlords no longer speak of reform after they get in power; they speak of the necessity of lower standards of living, of the masses living on *Ersatz*, or substitute, products.

Both the planning and the reformism of state capitalism must fail. But that does not make socialism "inevitable" in the vulgar meaning of the term. Capitalism does not "grow into" socialism, it merely determines the necessary historical conditions, which provide the proletariat and its most conscious, revolutionary elements with the opportunity for creative action. State capitalism is not the transition to socialism but a reaction against it, which, if the revolutionary proletariat does not act, becomes a transition to fascism. No crisis of capitalism is hopeless, unless the proletariat makes it so. For capitalism can find a "way out"—in more oppression of the masses, in war, in decline, stagnation, and decay, for these do not matter to the bourgeoisie if it can cling to power. Socialism is inevitable in the long run: humanity will not forever endure the oppression and decay of capitalist decline, and socialism is the only alternative. But socialism is *not* inevitable in the *short run*, and this is decisive in the practical revolutionary politics and struggles of the workers. On this aspect of the problem Lenin, who combined a passion for scientific analysis of objective forces and possibilities with a passion for dynamic action, strategy, tactics, and will, said:

"Capitalism could (and very rightly) have been described as 'historically worn out' many decades ago, but this in no way removes the necessity of a very long and very hard struggle against capitalism

at the present day. . . . The scale of the world's history is not reckoned by decades. Ten or twenty years sooner or later—from the point of view of the world-historical scale—makes no difference; from the point of view of world history it is a trifle, which cannot be even approximately reckoned. But this is just why it is a crying theoretical mistake in questions of practical politics to refer to the world-historical scale."<sup>13</sup>

The vulgar conception of the inevitability of socialism merely cloaks the reformist and opportunist refusal to struggle for the overthrow of capitalism. *Only the revolutionary consciousness and action of the proletariat and the understanding, strategy, and tactics of its communist party make socialism inevitable.\**

Behind the vulgar conception of inevitability, in theory, is a failure to understand the differences between the proletarian and the bourgeois revolutions. Merely the similarities are stressed. (Although, suggestively, not the bourgeois use of revolutionary force and dictatorship.) The development of the forms of a new economic order, and its class

\* "The socialist republic will not leap into existence out of the existing social loom, like a yard of calico is turned out by a Northrop loom. Nor will its only possible architect, the working class—that is, the wage-earner, or wage slave, the modern proletariat—figure in the process as a mechanical force moved mechanically. In other words, the world's theatre of social evolution is not a Punch and Judy box, nor are the actors on that world's stage manikins, operated with wires. . . . The socialist republic depends not upon material conditions only; it depends upon these—plus clearness of vision to assist the evolutionary process. . . . It depends, not upon a knowledge of scientific socialist economics and sociology alone. It depends upon that and, hand in hand with that, upon an accurate knowledge . . . of what I may call the *strategy* and *tactics* of the movement." Daniel De Leon, *Two Pages From Roman History* (1902), pp. 7, 54, 88–89. In spite of much sectarianism and some practical and theoretical shortcomings, De Leon, whose *Two Pages* Lenin considered a masterpiece, was a great Marxist, creative in his approach to American problems. He stressed the rôle of a conscious, highly disciplined party as the spearhead of revolution, and waged ruthless war upon reformist socialism and opportunism. Although he did not originate the idea of industrial unionism as projecting the "government" of the new socialist order, he provided it with a thorough Marxist approach and application, insisting that Engels' "administration of things," after socialism abolished the state, could only be the community of integrally organized producers. While Lenin condemned the idea that the revolution depends upon organizing the workers 100% industrially under capitalism, he accepted industrial unionism as the basis of socialist society, "*Left*" *Communism, An Infantile Disorder* (1920), p. 31: "Trade unions, very slowly and in the course of years, can and will develop into broader industrial rather than craft organizations (embracing whole industries and not merely crafts, trades, and professions). These industrial unions will, in their turn, lead to the abolition of division of labor between people, to the education, training, and preparation of workers who will be able to do *everything*."

carrier, transformed the old feudal order and thrust the new class into power with an almost mechanical inevitability. While this process goes on within capitalism, inevitably preparing the objective basis of socialism, there are some differences which profoundly affect strategy and tactics.

The bourgeoisie was a propertied class, the proletariat is non-propertied. From one angle, this means that, while the bourgeoisie merely replaced one form of property with another, the proletariat will abolish property and, consequently, class rule and exploitation. But property was a source of strength to the bourgeoisie, its lack a source of weakness to the proletariat.\*

The bourgeoisie owned the new forces of production, whose ownership piled up wealth and power for the new class. Even while it still maintained its political control, the nobility came to depend upon the

\* "The distinctive mark of the bourgeoisie was the possession of the material means essential to its own economic system; on the contrary, the distinctive mark of the proletariat to-day is the being wholly stripped of all such material possession. . . . The sign, the symptom, the gauge of bourgeois ripeness was their ownership of the physical materials essential to their own economic system; the sign, on the contrary, of the proletariat is a total lack of all material economic power—a novel accompaniment to a revolutionary class. Does this difference establish a difference in kind between the proletariat and the old bourgeoisie as a revolutionary class? It does not. But it does establish a serious difference in the tactical quality of the two forces, a difference that imparted strength to the former revolutionary forces under fire, while it imparts weakness to the proletariat. There was nothing imaginable the feudal lord, for instance, could do to lure the bourgeois from the path marked out to it. Holding the economic power, capital, on which the feudal lords had become dependent, the bourgeois was safe under fire. All that was left to feudalism to maneuver with was titles. It might bestow these hollow honors, throwing them as sops to the leaders of the bourgeoisie. . . . The striking arm was bound to come down. Wealth imparts strength; strength self-reliance. Where this is coupled with class interests, whose development is hampered by social shells, the shell is bound to be broken through. The process is almost automatic. Differently with the proletariat. It is a force every atom of which has a stomach to fill, with wife and children with stomachs to fill, and, withal, a precarious ability to attend to such urgent needs. Cato the Elder said in his usual blunt way: 'The belly has no ears.' At times this circumstance may be a force, but it is only a fitful force. Poverty breeds lack of self-reliance. Material insecurity suggests temporary devices. Sops and lures become captivating baits. And the one and the other are in the power of the present ruling class to maneuver with. Obviously the difference I have been pointing out between the bourgeois and the present, the proletarian, revolutionary forces shows the bourgeois to have been sound, while the proletarian, incomparably more powerful by its numbers, to be afflicted with a certain weakness under fire, a weakness that, unless the requisite measures of counter-action be taken, must inevitably cause the course of history to be materially deflected." De Leon, *Two Pages From Roman History*, pp. 58-60.

economic power of the bourgeoisie, compelled to recognize and make concessions to new economic forces and their class representative. In "balancing" the conflicting interests of nobility and bourgeoisie, the absolute monarchy represented an increasingly ascendant bourgeois power. The new class might compromise with the nobility and the monarchy and yet accomplish its essential purpose, because the possession of the new form of property, which irresistibly became the dominant form, strengthened the bourgeoisie and weakened the feudal class.

Thus its *ownership* of the new forces of production almost automatically made the bourgeoisie the ruling class. But the non-propertyied proletariat does not own the economic forces of the new social order. These are implicit in the collective character of industry, the basis of socialism, but industry itself is in the ownership of the capitalist class. Where, under the conditions of monopoly capitalism, ownership is separated from management, the managerial employees and small stockholders are overwhelmingly identified, economically and ideologically, with the dominant property and class interests. The proletariat is in *physical possession* of the means of production, the source of its revolutionary significance, vigor, and power, but the assertion of this possession is possible only by an ideological transformation and a *revolutionary act*.

There are other differences. The peasants, artisans, and wage-workers necessarily accepted the leadership of the revolutionary bourgeoisie in the struggle against feudalism; the revolutionary proletariat must carry on a whole campaign to win over or neutralize the farmers and elements of the middle class. Every revolutionary class must wage war on the cultural front. The university, science, technology, and learning were in general manifestations of bourgeois development, under bourgeois control, waging the bourgeois cultural struggle against the feudal order. But now all these forces, in their dominant institutional forms, are opposed to the proletariat; its revolutionary culture, while it includes many concrete achievements, is necessarily and mainly potential, a culture of revolutionary criticism and ideological struggle, interpreting, clarifying, projecting, capable of becoming dominant only after the revolution, where bourgeois culture measurably conquered while the old class-political forms were still in power.

The proletarian revolution, moreover, is much more fundamental than the bourgeois revolution. Where the one replaced older forms of property and exploitation with newer forms, the other annihilates all forms of private property and exploitation. There can be no compromise between capitalism and socialism. Compromise between feudalism and



capitalism revealed their exploiting identity. Capitalism developed irresistibly in England in spite of the restoration of monarchy after the Puritan revolution. The nobility, whose make-up was transformed by the "new men" who rose to power as a result of the upsets created by bourgeois development, was enriched, particularly in England and Germany, by industrial exploitation of mineral resources on the great landed estates; some of the nobles were even pioneers of capitalist enterprise. An older class adapted itself to the rule of the new, was measurably absorbed into the new system. But capitalists cannot be absorbed into the new socialist order; hence there can be no compromise between socialism and capitalism. Capitalist resistance to socialism is necessarily more violent and enduring than feudal resistance to capitalism.

Proletarian organization, in a sense, corresponds to the bourgeois ownership of property. The proletariat, organized by the mechanism of capitalist production itself, imposes limitations upon the absolute sway of capital by means of organization. But labor organizations turn into fetters upon action for larger purposes, become entangled with the limited aims of the aristocracy of labor, are influenced by the economic, cultural, and political weight of the ruling class, develop the vested interests of a bureaucracy frightened of "disturbing" actions. (The dialectics of the proletarian revolution indicate that an inescapable phase is the struggle against the limited aims and conservative leadership of the older organizations of labor, which is a struggle to transform quantity into quality. "Proletarian revolutions," said Marx, "criticize themselves constantly; constantly interrupt themselves in their own course; come back to what seems to have been accomplished in order to start anew; scorn with cruel thoroughness the half measures, weaknesses, and meannesses of their first attempts; seem to throw down their adversary only in order to enable him to draw fresh strength from the earth, and again to rise up against them in more gigantic stature; constantly recoil in fear before the undefined monster magnitude of their own objects—until finally that situation is created which renders all retreat impossible, and the conditions themselves cry out: "*Hic Rhodus, hic salta!*")<sup>14</sup>

The proletariat must strike ruthlessly when the moment is favorable; otherwise its forces may break apart, temporarily but still disastrously, as capitalism is favored by the institutional weight of its economic, cultural, and political domination. For if the proletariat, where the conditions are favorable, does not seize power, if it compromises with capitalism instead of destroying it (as in Germany in



1919), there is an inevitable if temporary renewal and consolidation of capitalist supremacy. The proletariat is susceptible to the lures and wiles of reformism, prone to weaknesses and half measures, hampered by the conservatism of its organizations and their bureaucracy, which avoid and betray revolutionary struggle.

But the complicated conditions of proletarian revolution are offset by an increasing awareness of purposes and means, which becomes itself a social force.\* They are, moreover, dangerous only if they are not properly understood and evaluated. They are fatal to moderate socialism and laborism, because these movements are dominated by, instead of dominating, the complex class-economic relations, and reject the necessity of creative revolutionary action in favor of the reformism which inevitably merges into capitalism because of the economic, cultural, and political weight of the capitalist class. The complications of the proletarian revolution demand the creative initiative and awareness of Marxism. They demand a policy of inflexibility and no compromise on fundamental issues with the class enemy, of balancing immediates and ultimates, of an indissoluble unity of theory and practice. But at the same time the utmost flexibility is necessary in approaching the workers, of moving with them even when their actions are characterized by half-measures and weaknesses, of compromising on issues which do not involve fundamental objectives, of maneuvering in the midst of complex class relations, of combining the immediate needs and struggles of the workers with their larger class interests and purposes. These apparently contradictory but dialectically complementary factors impose the necessity of an inflexibly revolutionary and disciplined party of the most conscious and militant workers, a communist party which, precisely because it is inflexibly agreed on fundamental purposes and means, can flexibly approach the complex conditions under which the proletariat operates, be both participant in and vanguard of the struggle of the masses, until they rally to the party's final revolutionary program and struggle for power.

Monopoly state capitalism cannot work. It merely tries to "stabilize" the conditions of capitalist decline, and makes things worse. The proletariat enlarges its action, becomes more aware of means and purposes, moves toward the revolutionary struggle for power. Capitalism answers with counter-revolution.

State capitalism is itself a struggle against the proletariat and its potential revolutionary action. But state capitalism still clings to formal

\* This subject is more fully discussed in Chapter XXVI, "The American Revolution."

democracy; the workers still possess, in spite of limitations and repression, the concrete democratic rights to organize and strike, openly to act independently as a class and to engage in the struggle for a new social order. As the economic and political crisis becomes more acute, the immediate and potential revolutionary action of the workers becomes more threatening. Capitalism reacts by destruction of the concrete democratic rights of the workers: destruction of the unions, of the right to strike, of the political organizations of labor. It is no longer merely a question of destroying the revolutionary, the communist vanguard of the working class. *For the situation is so acute that revolution is on the order of the day; the conservative worker of to-day may become the revolutionary worker of to-morrow. So capitalism destroys all labor organizations, economic and political, attempts to deprive the working class of all possibility of initiative and independent action.* This makes both necessary and possible a united labor struggle.

The immediate form of this struggle against the capitalist reaction, which grows out of the underlying conditions of state capitalism and increasingly becomes fascism, is a struggle to protect the concrete democratic rights of the workers, to preserve their organizations and class independence. Upon this issue the workers are mobilized and thrown into action against the capitalist offensive. *But this struggle of the workers to protect their concrete democratic rights must go beyond its immediate purposes, must become a revolutionary struggle for power, for the workers' rights are dangerous to capitalism in decline and must be destroyed.* Out of the immediate defensive action arise the conditions and necessity of larger offensive action, of the final struggle to overthrow capitalism.

The ruling capitalist class is a small oligarchy. Its rule needs a social base in wider mass support. As the oppressive weight of monopoly state capitalism thrusts the working class on to more aggressive action, other classes are set in motion by their own oppression. The farmers and middle class revolt. *Fascism is an attempt to use the petty-bourgeois masses (including the agrarian) as the upper bourgeoisie has always done, in other forms, to act as a counter-revolutionary mass force.* But these are essentially plebeian masses, the decline of capitalism presses mercilessly upon them, and they are desperate. So fascism masks its purposes with anti-capitalist and radical phrases. But the moment it comes to power fascism reveals itself as the dictatorship of monopoly capitalism. All along fascism is financed and supported secretly by the big capitalists; now they step forward and take power, while the petty-bourgeois masses are assigned the rôle of butchers of the opposition.

The resort to fascism is an expression of capitalist desperation. The capitalists would prefer to rule by the old methods of bourgeois democracy, for while the fascists are their hirelings they demand payment and may go beyond "legitimate" purposes, become locusts devouring profits. But bourgeois democracy breaks down. Its concrete democratic rights offer the workers the opportunity for organization and action. The petty-bourgeois masses, the carriers of democracy and formerly held in leash by it, can now be made a mass support of capitalism only by the annihilation of democracy—precisely as capitalism now clings to power by reacting against all its progressive forces—only by diverting the petty-bourgeois from a struggle against capitalism to a struggle against democracy. This is an important symptom of capitalist decay. Another symptom is the degeneration of the ruling class itself, emphasized by its fascist mobilization of the scum of society, adventurers, gangsters, and degenerates, in a struggle against the new social order. For fascism draws to itself the worst social elements, it makes a cult of cruelty and reverts to Cæsarian barbarism.

From a class-political angle, fascism is distinguished by three main characteristics:

1. Fascism suppresses the organizational and class independence of the workers. The "Charter of Labor" of Fascist Italy forces the workers into "unions" under complete control of the state, deprives the workers of the right of collective bargaining, prohibits strikes and other forms of independent class action.<sup>15</sup> So does Fascist Germany. But the Nazis have improved upon the technique of their Italian brethren. The only "unions" permitted are in isolated company plants, completely separated from the "unions" in other plants; and all labor relations, including the fixing of wages, are under control of the employer, the "leader" whose "honor" alone limits his actions.<sup>16</sup> Class collaboration!

2. The petty-bourgeois masses, the social support of fascism, are used to secure power and are then increasingly thrust downward to the level of the workers. Italian fascism weighs heavily upon the petty-bourgeois masses. One of Hitler's first acts after coming to power was to abolish independent middle class organizations. Testimony is that "the professional classes are poorer now than before," and "the small bourgeoisie, formerly the most ardent Nazi supporters, are beginning to resent interference by the state in their private lives, while economically their position has not improved."<sup>17</sup> In fact, it has become worse.

3. A tighter amalgam of finance capital and the state, for purposes

of aggression against the workers and petty-bourgeois masses and war against other nations. Fascism monstrously inflates nationalism.

Underlying these characteristics, and attempting to bind them together, is another: the creation of an ideology to replace the democratic ideology which was formerly the moral source of capitalist domination. This new ideology is a complete reaction against the old, rejecting progress and deifying reaction. It is an expression of the complete moral collapse of capitalism, one of the most important symptoms of a dying class.

Fascism is *not* a new economic system. Its whole economic policy is merely that of state capitalism, with one important difference: As state capitalism still clings to formal democracy, it must make concessions (as few as possible, of course) to other classes, to "balance" class interests. Fascism may disregard this necessity because it suppresses democracy and class independence. Contrary to its claims, *fascism imposes fewer "controls" upon finance capital than state capitalism, because finance capital merges more completely into the state.* Beyond this, fascism pursues the state capitalist policy of aiding private enterprise, of trying to overcome the multiplying contradictions and antagonisms of capitalist production by the collective economic action of the state, of trying to "freeze" the disintegration of capitalism. The "corporate state" is merely a disguise for reactionary state capitalism. Fascism cannot create a new economic order. For the petty-bourgeois masses do not represent a new order, but an older one which monopoly capitalism has destroyed; in so far as they are small producers, the petty bourgeois are entangled with the survivals of a mode of production which must completely disappear. Fascism, in fact, strengthens monopoly capitalism. *The petty-bourgeois masses behind fascism accept the relations of private property, and these relations inevitably produce monopoly capitalist control.* Fascism is merely the old order, only more so and without the progressive features which that order formerly possessed. It is capitalism brutal, reactionary, wholly predatory: capitalism clinging to power by revival of political forms and ideals which it once opposed with revolutionary vigor.

Once in power fascism ruthlessly disposes of the elements within itself which may have taken seriously its anti-capitalist and radical phrases. It combines openly with the old reactionary forces and the repressive apparatus of the state. More or less rapidly but surely, depending largely upon the movement of the cyclical and general crisis of capitalism, fascism loses its plebeian support in the petty-bourgeois masses, and becomes a military dictatorship. Bourgeois



democracy provided a mass support because capitalism was on the upswing and by and large "delivered the goods." Fascism cannot provide a real mass support because capitalism is in decline and no longer "delivers the goods." But as its social support crumbles, including its promises and ideology, and fascism relies more openly upon mere military force, conditions ripen more quickly for a revolutionary upsurge of the masses.

Fascism, and many of its apologists agree, is a modern form of Cæsarism. What was Cæsarism? It was the expression of Roman decline, stagnation, and decay (which made conquest and rapine a philosophy and a way of life). Progressive class-economic forces were exhausted. The ruling class was decadent, unable to rule any longer by the old methods. No new revolutionary class appeared on the social scene. But Cæsarism operated in a society which was predominantly agricultural and static, where no class was capable of revolutionary struggle, and no new forms of production thrust insistently against the shell of old social relations (except the small beginnings of serfdom, a result of slave agriculture becoming increasingly unprofitable). The despairing masses turned to the other-worldly resignation of Christianity. Thus Cæsarism could long endure. But it eventually crashed. The Cæsarism of fascism operates in a dynamic society, where a new economic order presses insistently for release, and the revolutionary proletariat and Marxism are organizing, striving, acting. These forces can prevent the coming of fascism, with its threat to civilization itself. Fascism may temporarily suppress but cannot destroy them. It is another challenge to creative Marxism, to the communist awareness of purposes and means and its purposive application to new problems.



## The Crisis of the American Dream

UNDERLYING the class-ideological crisis created by the decline of capitalism is a crisis of faith in the old order. More concretely, it is a crisis of the constituent ideals which animate the faith. The ideals of the American dream—the trinity of liberty, opportunity, and progress—were becoming, long before the crisis of the capitalist system, increasingly restricted in scope and unrealizable in practice. They lingered on primarily as a cultural lag: for ideals may persist and affect social action after the material conditions of their origin are no more. Now the breakdown of the ideals is startlingly revealed by the decline of capitalism. The faith of the million-masses begins to crumble.

The stubborn cultural lag identified with the ideals of the American dream is proof of their former vigor and measurable reality. They were, it is true, ideals forged in the fires of the bourgeois revolution in Europe, but they acquired greater scope and realization in the American scene because of the frontier and the absence of feudal hangovers, resulting in more favorable social-economic relations for the practice of liberty, opportunity, and progress. The American dream assumed definite shape and flourished most vigorously in the 1820's–50's. An enormous mass of settlers was absorbed by the frontier, creating an agrarian democracy whose independence and rebellious spirit strongly colored American life. Industry developed rapidly, and it was in the small-scale stage which made it “open to all the talents.” Restrictions on the right of labor to organize were overthrown. Remnants of semi-feudal tenure in the colonial land system were destroyed. The older aristocracy was breaking down, the new not yet entrenched in power. Free public education was enacted into law, and it measurably included higher learning. The ideals of the American revolution and of Jeffersonian democracy seemed wholly realizable. One bourgeois historian thus describes the situation:

“Neither an extreme of individualism nor uniformity. Class distinction became less obvious than in earlier days, but it did not quite disappear. There was absent the later bitterness of class feeling. . . . American aristocracy was not a closed caste, and it was everywhere firmly linked with the mass. . . . There was so close an approximation

to economic equality to match the political that effort and ability could raise anyone to the top. . . . A fundamental element of a living was liberty, and all Americans were expected to look forward to becoming their own masters. . . . The agency of the national government was reduced to a minimum. . . . To deny that the American system of government would be immediately beneficial if adopted in China was to commit democratic treason; heredity availed not—opportunity plus effort would produce anything at once. . . . Free men could be trusted to want what was right and to get it. . . . The dominant and simple belief in equality, the vast demand for labor, and the individualistic conception of government, all reinforced the sentiment that the United States was a refuge for the oppressed as well as an example to the world.”<sup>1</sup>

The dream had many tawdry elements. Underneath it all, moreover, were many serious abuses. There was the extermination of Indians and the slavery of the Negro. In the South the American dream was excluded, for slavery prevented its appearance even among “poor whites.” The factory system was consolidating itself, with its typical evils. Vile slums disfigured the larger towns. Political corruption flourished, and was generally considered an element of “opportunity.” Already there was prejudice and enmity against immigrants, whose labor sustained much of the liberty, opportunity, and progress of the older Americans. But the faith was that these abuses would be destroyed, as others had been: agrarian radicals and Abolitionists testified to the faith. The hope was, in this new world, that a new social order was being created, moving irresistibly onward to higher things. Of the measurably plebeian democracy—impatient, rebellious, against the old and for the new—the plebeian Whitman sang:

*The democratic masses, turbulent, wilfull, as I love them.*

*One's-self I sing, a simple separate person,  
Yet utter the word Democratic, the word En-Masse.  
It alone is without flaw, it alone rounds and completes all.  
I swear nothing is good that ignores individuals.*

*Do you see who have left all feudal processes and poems behind,  
and assumed the poems and processes of democracy?*

*Without extinction is Liberty, without retrograde is Equality  
(Not for nothing have the indomitable heads of the earth been  
always ready to fall for Liberty).*

*Resist much, obey little.*

*I leave in him revolt (O latent right of insurrection! O quenchless,  
indispensable fire!)*

*I will make a song full of weapons with menacing points.*

*My call is the call of battle, I nourish active rebellion.*

*You who celebrate by-gones . . .*

*I project the history of the future.*

*O America because you build for mankind I built for you.*

But where Walt Whitman believed he was singing the future democracy (some "radicals" still do), he was really celebrating an age already passing away in his own lifetime. For the social-economic relations which sustained the ideals of the American dream arose out of the prevalence of small independent property and the comparative ease of its acquisition. The middle class was ascendant; it was not restricted by survivals of feudal aristocracy, ideology, and political power. The workers were few and largely composed of skilled artisans; if they owned no property, they were convinced it was within their reach. The farmers were the largest class, independent, impatient of restraint, animated by a definite, if parochial, spirit of revolt. It was essentially the petty-bourgeois democracy of early capitalism, invigorated by the absence of feudal hangovers and the constant rebirth of the frontier (the small independent farmer is himself a petty bourgeois). But the development of capitalism is conditioned by the annihilation of independent property: an objective socialization of industry which assumes the capitalist form of concentration of ownership in a small predatory class. Whitman saw this development without appreciating its significance; in fact he greeted "the almost maniacal appetite for wealth, the immense capital and capitalists" as "parts of amelioration and progress, needed to prepare the very results I demand." The makers of the American dream, by and large, crudely admired material progress, possessions, wealth. Yet these forces destroyed the conditions of petty-bourgeois democracy, limited or altered the ideals of the American dream, and strengthened its more tawdry elements.

The onward sweep of industrial capitalism, which consolidated its power during the Civil War and after, transformed social-economic relations. Out of the middle class arose the great industrial capitalists;

the class was thrust downward, becoming a "class" of small businessmen struggling for survival, functional groups dependent upon large-scale corporate industry, and parasitic elements nourished by the purely speculative and predatory aspects of capitalism. The workers became industrial serfs; instead of independent property, the great objective now was jobs, higher wages, and lower hours. Agriculture was mastered by industry; the farmers were steadily deprived of their class-economic independence, ground down by capitalist exploitation, land speculation, and an increasing tenancy which gradually lost its character of climbing up the agricultural ladder. The frontier began slowly but inexorably to close: measurably by 1880, completely by 1900. Before this, a fundamental change in the frontier altered its significance. There were really two frontiers. The older frontier, before the 1850's, built up an essentially self-sufficing agricultural economy; it was a driving democratic force, destructive of class stratification, creating an ideology and representing a way of life.\* The newer frontier, after the 1850's, was increasingly dependent upon the economy of market and price; it was essentially a force in the extensive expansion of capitalist agriculture, mining, and industry, resulting in conditions destructive of the old ideology and way of life and consolidating a new class stratification. For agriculture sustained the development of capitalism in the Western regions, which made farming a business, destroyed its independence, and converted the new regions into provinces, if not direct domains, of industrial and finance capital.†

Developments after the Civil War constantly restricted the reality of the American dream: its ideals disintegrated, were limited in practice, or assumed a different character. Most of the libertarian spirit

\* They still talk, to-day, of farming as a way of life, although it has long since been a business and is being ruined by the decline of capitalism.

† Frederick J. Turner was the first historian to analyze the significance of the American frontier. But Turner, *The Frontier in American History* (1920), oversimplified the picture by neglecting the conditioning class-economic relations. This is also true of his analysis of sectional struggles, which at bottom were class struggles. The frontier and sections were important peculiarities of American development, but it is impossible to grasp their full significance without relating them to class relations and the onswEEP of industrial and monopoly capitalism. The frontier contributed to the shaping of the American dream; it contributed still more to the development of capitalist agriculture and industry, which reacted against the dream. Turner and his successors were not satisfied to consider the influence of the frontier as temporary and past, but projected it into the future as a "spirit" still animating American life and creating a new national unity. But the frontier and the dream passed on; monopoly capitalism remains, with its class stratification, economic decline and crisis, and reaction against the ideals of the American dream.

evaporated. Independence was increasingly replaced by insecurity. Class lines began to harden and government to usurp more repressive powers. Individualism was submerged, except for the freedom granted to capitalist buccaneers, as a constantly greater proportion of the population became direct employees or general dependents of large-scale corporate industry dominated by the financial oligarchy. Opportunity for the mass was more and more limited to survival or slightly improving one's lot within the new institutional set-up. The dream became primarily a faith in mere material progress; its old cultural promise was destroyed. But the dream was still vigorous and profoundly affected American life, mainly because of cultural lag, partly because there was still progress in many directions and capitalism, by and large, still "delivered the goods."

The American dream lingers on, for the lag is stubborn. But it now experiences a crisis more serious than any in the past. For former crises did not shatter the dream; they merely destroyed some of its ideals, increasingly limited the realization of others, and gave still others new, if vulgar and unsatisfactory, forms of expression. Material progress and reform helped to sustain the dream's cultural lag; but these very forces (the one ending in monopoly capitalism and imperialism, the other making them acceptable to the mass of the people) prepared the conditions of the decline of capitalism, which turns the American dream into a nightmare.

For now capitalism is not merely limiting or vulgarizing the ideals of the American dream. It is in direct revolt against them. They must be destroyed if capitalism is to endure in the epoch of decline.\* This appears clearly from an analysis of the dream's constituent ideals.

\* This is a world development. The ideals of the American dream are essentially the democratic ideals of the bourgeois revolution. In Europe they appear in the remnants of liberalism, and particularly in moderate reformist socialism. For this movement, in spite of its claims to Marxism, is really built on a faith that the bourgeois democratic ideals are capable of peaceful, gradual transformation and realization as socialism. This forgets the scientific prophecy of Marx that capitalism would break down and become a reaction against its own productive forces and ideals. In all the capitalist nations of Europe the attack upon democratic ideals grows. They are completely destroyed in Italy and Germany as wholly pernicious and unnecessary. The Spanish revolution embodied all the democratic ideals, which were given a substantial radical coloring by the strong labor and socialist movement; but now, as the workers did not completely overthrow the ruling classes, the reaction against democratic ideals grows—not merely feudal-clerical but capitalist reaction, for the bourgeoisie is afraid of revolutionary action by the workers and peasants. In economically backward lands, imperialism hampers the development of bourgeois democratic ideals or distorts them. For while, in their struggle against imperialism, the local



1. *Liberty: The right of the individual to live his own life in his own way (of which an earlier expression was freedom of conscience); tolerance as a way of life.*

Always limited, and necessarily in a class society, this ideal was identified with the possession of property. It was in its cruder aspects an expression of competition and too often merely the liberty and individual right of the worker to starve (and is now increasingly becoming that). But the ideal, even in its limited realization, marks a great achievement of civilization. Although it arose out of bourgeois necessity, out of the struggle against feudal restrictions and the need for free labor, and was accompanied by barbarous exploitation of workers and expropriation of peasants, the ideal of liberty acquired its own loftier meaning: the right to doubt and act, to revolt, to create new forms of living in preference to the old. In this sense it was an upthrust of the human spirit. One aspect of liberty and individualism, particularly in the new world of the American scene, was the right to move freely in an economic and social sense. The petty bourgeois fairly easily went into business or the professions. The worker as easily changed his job, with some chance of becoming a master. The dissatisfied and adventurous migrated to the frontier, creating a pervasive agrarian democracy. These conditions invigorated independence and the "right to revolt" glorified by Jefferson and Whitman.

A great change was wrought, however, by industrial capitalism, whose institutional set-up destroyed, without developing an alternative, the earlier relations of liberty and individualism based upon the possession of independent property or the ease of acquiring it.\* The factory and the farm know little of them. They have been whittled down to a minimum by large-scale industry, although they offer the material means for an infinitely greater and finer realization of liberty and indi-

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bourgeoisie accepts the democratic ideals, it does so gingerly because of a fear of their effect upon the masses of workers and peasants. Only the revolutionary movement of workers and peasants accepts the ideals and gives them, under communist inspiration, the significance of a struggle for socialism. As in Russia, the historically belated bourgeois revolutions merge into the proletarian revolution.

\* Walter Lippmann, *The Method of Freedom* (1934), urges an extension of independent property to insure freedom and democracy, as "private property was the original source of freedom" and "it is still its main bulwark"—at a time when independent property is anachronistic, the ownership of essentially collective property is highly concentrated, and fascism annihilates freedom and democracy to preserve the "rights" of property; he urges making workers members of the middle class and strengthening that class in the interests of freedom and democracy—at a time when the middle class is disintegrating and is used to suppress freedom and democracy. Rip Van Winkle awoke after twenty years; Walter Lippmann sleeps on.

vidualism. Monopoly suppresses them. They have been limited and degraded by all sorts of institutional pressures in the interest of profit and the ruling class, whose "rugged individualism" is merely a screen for predatory practices and disregard of the masses' needs. (The widening gap between the ideal and the conditions of its realization is the major cause of that reactionary, poisonous ingrown individualism of the esthetes, with its contempt of the masses and life itself.) Now the decline of capitalism makes things worse. The disemployed—where is *their* liberty and individualism, or that of the employed worker, more fearful than ever of being fired? Liberty and the right to revolt, freedom of conscience and its right to doubt and act against the old order, become dangerous revolutionary ideals in the midst of a class-economic crisis. The old order no longer "delivers the goods." Discontent must be suppressed, the masses isolated from the influence of subversive ideas, the individual (and the class) yoked to a new slavery. State capitalism limits with innumerable fetters the scope of liberty and individualism; fascism murderously tramples them underfoot, while elevating the liberty and individual right of the masters to plunder and destroy.

Tolerance as a way of life? It was never very real, limited by the strain of competitive living and class and institutional pressures. Now tolerance breaks down as class-economic antagonisms flare up in social war. Fascism makes *intolerance* its ideal, a system and a way of life.

2. *Democracy: The right of the people to decide their own destiny in their own interests and in their own way; faith in the creative initiative and action of free men and women.*

Bourgeois democracy, an incomplete form of democracy because identified with class domination, was itself always incomplete, particularly where it compromised with feudalism. Its American form was the most fully developed, primarily because of an agrarian democracy unknown in Europe. But the class-economic basis of bourgeois democracy is small independent property and petty-bourgeois rule: both are annihilated by monopoly capitalism. Hence the decay of the democratic spirit while the forms and ideal persist. Now the mere ideal is dangerous to capitalism, and it is the object of a growing offensive. "Democracy," according to an influential American educator, "minimizes distinctions of worth, idealizes the mass, flatters the man in the street. With the degradation of power, as the center of gravity moves to the lower strata of the population, there is a corresponding degradation in the values of civilization."<sup>2</sup> His contempt of the masses is justified by ascribing evils to "the psychology of the crowd itself," as if "the

crowd" is an independent historical category. That is the ideology of fascism. Even in its incomplete bourgeois form, democracy has enriched the values of civilization, particularly the *possibility* of enriching them still more. Capitalism in decline, not democracy, now revolts against civilization and degrades its values, for it is a revolt against the ideal of a creative democracy of free men and women.

The early American democracy encouraged revolutionary democratic struggles in other countries. It approved the French Revolution and the democratic revolts in Latin America, demanding "hands off" from monarchical Europe. Now the form of expression of that demand, the Monroe Doctrine, is used to impose *our* imperialist domination upon Latin America. Imperialism pursues a wholly reactionary foreign policy. It works with the most barbarous feudal-bourgeois elements in economically backward lands. Finance capital, with loans and other means, supports fascist reaction in Italy and Germany. Monopoly capitalism and imperialism replace democracy with domination and tyranny. Nor is this limited to alien lands: for at home democracy becomes increasingly the democracy of repression, disemployment, and misery.

Bourgeois democracy at the beginning practically excluded the workers, who had to fight hard and long to secure democratic rights. Their concrete form is the right of the workers to organize and strike, to act politically as an independent class, to struggle for a new social order. These rights were available to the workers, although always limited by the economic, political, and ideological terrorism of the ruling class and on condition that they were not used for revolutionary purposes. They did not endanger the existing order, as the capitalist upswing induced the workers to use their rights in peaceful struggle for reform and piecemeal social change. Now the decline of capitalism makes the concrete democratic rights of the workers dangerous. For the old order is breaking down; reforms and piecemeal social change are excluded. Strikes now tend to become more aggressive and threatening, class action more conscious of final objectives and means, the struggle for a new social order a more pressing necessity and an immediate revolutionary issue. Bourgeois democracy, in the "rights" it "grants" the workers, now undermines capitalist rule where once it was sustenance and support. State capitalism increasingly restricts the democratic rights of the workers: it "regulates" unions and "arbitrates" strikes, moving toward their abolition, and invigorates the persecution of revolutionary parties where it does not drive them underground. These measures tend toward the suppression of all independent organ-

ization and action by the working class and the abolition of *all* democratic rights by fascism, whose ideal is *no* democracy.

3. *Equality: The right of all to an equal share in the fruits of progress regardless of origins; differences of racial or biological inheritance do not justify social inequality and class oppression or exclude any people from the highest forms of civilization.*

The revolutionary bourgeoisie waged a vigorous struggle against inequality as one condition of its coming to power; the imperialist bourgeoisie wages a still more vigorous struggle against equality as one condition of retaining power. Equality was always limited, of course, by the class-economic relations of capitalist society. It had much of brutal hypocrisy: the poor man and the rich man, the small thief and the big thief were all "equal" before the law. But within the limitations, there were substantial achievements, particularly those secured by the struggles of the labor movement. The ideal of equality was a real force in the America of the 1820's-50's, and still more a real faith: invigorated by the new non-feudal world, its great agrarian democracy, and the prevalence of small independent property. As, however, the institutional set-up of capitalism hardened, inequality became more marked. Now the decline of capitalism sets in motion forces opposed to even the limited realization of equality.

Decline and repression threaten the gains of the labor movement, the workers are to become a lower *caste*, and their limited right to organize and act is limited still more, if not destroyed. The Negro, who has struggled agonizingly to secure a place in American life, is to be deprived of his small gains: the increase in jim-crowism and lynching is ominous of the future. Women's rights are under constantly greater pressure, from more discrimination on jobs and wages to consigning them again to a medieval condition. Hatred of foreign-born workers is inflamed; they are repressed, discriminated against, deported if engaged in strikes or revolutionary activity, denied the "equal" rights of the American. (The great "melting pot" is now described, in the gracious words of two reactionary American educators, as "a very convenient garbage pail for Europe.")<sup>3</sup> Capitalism moves toward a system of caste privileges for the "elite" and an equality of misery for the masses. For under the limited economic conditions of decline the workers (and constantly larger groups of the farmers and lower bourgeoisie) must be thrust downward in an absolute, not merely relative, sense in order that the "elite" may flourish.

Underlying these developments is an ideological drive in favor of inequality, whose "scientific" justifications acquire an increasing cur-



rency. Inequality, according to its apologists, is conditioned by the germ-plasm, both in races and individuals. "Innate superiority," according to two American educators, "is the secret of the greater productivity of the business and professional classes [who have] a higher ratio of biologically superior individuals. . . . The degree of achievement has [not] been conditioned to any considerable extent by the environmental factors."<sup>4</sup> Not the decline of capitalism, which has outlived its historical utility and now survives only by repressing progress, but degeneration of the germ-plasm may "cause society to collapse and usher in a return of barbarism," as in the case (this is mere apologetics) of Rome and other ancient civilizations.<sup>5</sup> The masses are the masses because they are unfit, the "elite" are the "elite" because they are fit. The "elite" are to breed only with one another, the fit with the fit.\* Inequality is erected into a biological-caste system in the interests of the existing order and its ruling class.

Concepts of inherent racial inequality, buttressed by the most brazen distortions of biology, anthropology, and history, are used to justify imperialism. The whites are the superior race. So they can plunder colored peoples, butcher them, commit the most hideous crimes, impose reaction upon them and prevent their progress to a higher civilization. The brutes must pay for being born of the wrong germ-plasm! But

\*Two "cultural" American exponents of this policy, Ellsworth Huntington and Leon F. Whitney, *The Builders of America* (1927), are really monomaniacal and obscene on the subject. They cast (p. 120) longing eyes upon the feudal right of the first night, "which gave the lord of the manor the right to demand that every young girl on his estate spend the night with him before her marriage. A barbarous custom? Certainly, but biologically good. The children would possess a better average inheritance." They say (p. 115) of the feudal aristocracy's whoring: "As a rule they took only the unusually attractive women. A letter from the King of France, or some similar man, thanks his noble host not only for the high quality of the food and drink, but for the attractiveness of the women. Thus the high inherent qualities of the leading men are joined with the best stocks among the lower classes." They offer (p. 113) an apology for polygamy: "When polygamy is highly developed a much better biological condition would seem to prevail. [The fit] acquire wealth and power above that of their neighbors. One of the first uses to which such wealth and power are put is almost always to acquire a number of wives, almost certainly above the average. . . . Put yourself in the place of a powerful chief. Would you be content with anything but the prettiest, most charming and most intelligent wives if you had free choice? The numerous children inherit fine qualities from both parents." These sentiments are repeated by a German fascist professor, according to Ludwig Lore, "Behind the Cables," *New York Post*, April 10, 1934: "Monogamy for life is unnatural and harmful to the species. There are in every community willing and industrious men and youths. One lusty fellow could become the mate of from ten to twenty young women."



precisely as imperialism has its class aspects—promote capitalist profit, prevent the objective forms of a new social order developing into socialism—so the “racial” justification of imperialism has its definite class aspects. Both, in final analysis, are directed against the working class. While white peoples are considered the superior race, they are in turn divided into superior Nordics and inferior Mediterraneans, with the Alpines in between. Now observe the ingenious class application of a wholly unscientific and unhistorical theory: Within each white nation there is a mingling of races. The upper class are the superior Nordics, the middle class are the in-between Alpines, while the masses of workers and poorer farmers are the inferior Mediterraneans. “The cramped factory and the crowded city,” according to one American exponent of the theory, favor the “little brunet Mediterranean” and not the “big blond Nordic.”<sup>6</sup> So the workers are condemned to biological-racial-class inferiority and subjection.

These ideas are fantastic, unscientific, brutal. That does not, however, lessen the menace, for they meet the reactionary needs of capitalism in decline. State capitalism increasingly accepts them; fascism erects them, and other reactionary ideas, into a monstrous system of oppression. Both within the nation and in lands under imperialist domination the mere *idea* of equality becomes dangerous: it has revolutionary implications and must be destroyed.

The masses of workers and farmers are to become helots with a small middle class as slave-drivers, while a still smaller upper class reigns and enjoys.

Other races? Objects of war and plunder; if within the nation, objects of subjection approaching extermination to prevent racial “defilement” (Jews in Germany, the American Negro).

Women? They are to breed men for the wars, as cattle are bred for the slaughter pens.

4. *Mass well-being: The right of all to the good things of life, particularly the right of the mass of the people to share, and share increasingly, in the conquests of industry and civilization; the abolition of poverty.*

Mass well-being has become the most important ideal of the American dream for the workers, because of their occupational inflexibility resulting from constantly more rigid class stratification. The ideal was not, however, of bourgeois origin; it was created primarily by the upthrust of the masses and the ideology of the labor movement arising out of the conditions of capitalist development. Bourgeois revolutions called the masses to action but suppressed them after the conquest of

power, disregarding their well-being. The industrial revolution was accompanied by increasing mass misery; improvement of the workers' lot in the epoch of capitalist upswing was offset by increasing misery in newly developing industrial nations and in colonial lands. Yet capitalism, by and large, raised considerably the level of mass well-being as a by-product of economic expansion and necessity and in response to the struggles of labor. Not as much, of course, as among other classes; not as much as was possible in view of the immensely augmented productive forces of society. There were recurrent depressions when mass well-being was submerged, and periods of prosperity when the workers did not share in the gains of material progress or saw their relative share decreased. Nor was poverty abolished, although its abolition has been possible these many, many years. But the tendency was upward, if slowly, interruptedly, agonizingly, and there was always the hope of better things to come. Now the hope is killed by the decline of capitalism and its crisis of the system, by mass unemployment, lower wages, and lower standards of living.

The shattering of the ideal of continuously greater mass well-being is of the utmost significance, as the great mass of workers have increasingly interpreted the American dream in terms of improvement on the job. Now jobs become scarce and working conditions worse. Mass well-being is replaced with mass misery, the ideal of the abolition of poverty with a new and wholly unnecessary poverty. Capitalism returns to the epoch of increasing misery. State capitalism gives lip-service to mass well-being with mass relief and promises, for it clings to the old ideology *in words*. Fascism brutally and cynically discards the ideal of mass well-being. Mussolini categorically declares the "good old times" will not return, that the nation (workers, peasants, and lower bourgeoisie) must accustom itself to lower standards of living.<sup>7</sup>

Recompense? The glory of fascism and war, of the prison and concentration camp!

5. *Opportunity: The right to an equal share in economic and political opportunity, whose perpetual rebirth was assumed, unrestricted by origins; in its more subtle forms, an aspiration after higher things.*

This is the most bourgeois ideal of the American dream. It was rooted in the demand for bourgeois opportunity to exploit the workers, in preference to feudal exploitation. It meant essentially the opportunity to acquire property (and to plunder others of their property). In the earlier years of the American republic, property was comparatively easy to acquire: if in no other way, then by staking out a farm on the frontier. Opportunity was measurably an element in a way of life. Its

most important causes were the enormous need for material development in a new world, the great increase in population, primarily because of immigration, the perpetual rebirth and expansion of the frontier, and the swift tempo of capitalist development. The resulting unusual social-economic growth, both in time and place, and the fluidity it created, multiplied opportunity and the chances offered to the more enterprising among the mass of the people.

The onward sweep of industrial capitalism provided new forms of opportunity while limiting the acquisition of independent property to an increasingly smaller class. But for propertiless workers, opportunity now meant getting a job and improved working conditions; for a constantly greater number of farmers it meant getting a mortgage or becoming tenants. Opportunity in general, however, was sustained by its new forms resulting from the upswing of capitalism, mainly technical, managerial, and professional. It became more and more a matter of "rising" within the institutional set-up of industrial and monopoly capitalism. Immigration was again a factor, for older Americans "rose" because of the influx of aliens into the poorer-paid occupations. But the great majority of workers were practically excluded. Of 18,400 individuals born around 1870 and represented in *Who's Who* for 1922-23, only 1,259 or 6.8% were the children of workers.<sup>8</sup> The son of a skilled worker had one chance of rising out of 1,250, the son of an unskilled worker one chance out of 37,500. This has more the appearance of a lottery than of opportunity. Conditions in 1870, moreover, were comparatively favorable to "rising" among sons of the mass of the people; thus some groups of the farmers, who furnished 23.4% of the persons in *Who's Who*, prospered because of the continuous expansion of agriculture, the growth of cities in the newer regions in which their farms were, and the chance of making money by the discovery of minerals in their lands. As expansion in general slowed down, opportunity became more and more a monopoly of the intermediate and upper bourgeoisie. This is confirmed by a bourgeois study of the origins of American business leaders:

"Contrary to an American tradition of long standing, the typical figure among present-day business leaders in the United States is neither the son of a farmer nor the son of a wage-worker. . . . The proportion of farmers' sons among successful businessmen is tending to decrease and that of businessmen's sons (specifically, the sons of major executives) is tending to increase. The slack created by the decreasing proportion of farmers' sons is being taken up not at all by the sons of manual workers. . . . The representation of sons of major

executives is on the increase. If this tendency continues for many decades, the well-to-do classes [intermediate and upper bourgeoisie] will be contributing the major share of business leaders, and the middle classes [lower bourgeoisie, including farmers, clerks, and salesmen] but a minor share."<sup>9</sup>

First opportunity was limited for the working class. Then it was increasingly limited for the farmers and lower bourgeoisie. Now the further limitation of opportunity, an inescapable result of capitalist decline, means that the existing possessors of money and power will augment their control of diminishing opportunity. For the workers, it means a tremendous restriction of their only opportunity: to get a job and improved working conditions. Fascism tries to "freeze" this situation for all time, and with the most brutal sort of repression.

Aspiration? It can only be the other-world aspiration of medieval Christian submission—or the revolutionary aspiration for a new social order, for socialism.

*6. Education: The right to an education and faith in education as the means for personal improvement and progressive solution of social problems; the creator of new and finer ways of life.*

This is one of the most cherished ideals of the American dream. And in truth, after the technical-economic, capitalism has scored its greatest achievements in education. (Particularly in terms of their contribution to the possibility of developing a new social order.)

A revival of learning arose out of stirrings created after the tenth century by the accumulation of technical-economic and social-economic changes. The revival was conditioned by the emergence and development of the bourgeoisie. But it was a revolutionary class. The ideals and the martyrs of the new learning and of science, moreover, went measurably beyond mere bourgeois class necessity. They stormed the heavens. They stressed learning or education as Enlightenment: the light of reason, the human and the rational, the freedom to break down mental and social barriers and create new ways of life and thought opposed to the medieval. The university, even where it was enmeshed in the Church, was a center of resistance to feudal tyranny. Science, with its technical and experimental approach and the new vistas it opened up, invigorated the ideal of learning as change and mastery of the world and of life. Underlying the ideal of education was a sense of the perfectibility of man. (The cynic and the reactionary sneer. But is not perfectibility a creative ideal? Its horizons recede, but they beckon: is it not inspiring to march toward them?) The revolutionary pioneers of bourgeois education envisaged it as the means of solving



social problems, of creating and realizing new ideals and ways of life.

By the 1800's, the revolutionary vigor was no more. But the earlier ideals of learning appeared in the philosophy of mass education. Its pioneers insisted that this was the means of transforming man and society. This ideal was a passionate faith in the America of the 1820's-50's. It was embodied in the onward sweep of free public school education, including many institutions of higher learning. Emerson and others expressed their conviction that education meant the perfectibility of man, which was identified with the perfecting of democracy. But this democracy turned against itself. The perfectibility of man degenerated into practical "self-improvement" and the crotchety perfection of the crank and sectarian reform. Bourgeois education was stultified by its class nature and crass utilitarianism. A great educational plant was built up, but its scope was limited. The public schools provided competent workers and clerks. The institutions of higher learning provided competent technicians and professionals and ideological defenders of the existing order; on a smaller scale, they provided the cultural gilt indispensable to a ruling class. Nor was higher learning freely open to the mass of the people. In 1927, only 24% of American college students were the children of wage and clerical workers<sup>10</sup> (who constituted nearly 70% of the gainfully occupied).

Yet, in spite of limitations, the educational achievements were great. Now they are threatened by the decline of capitalism.

There was a serious breakdown in educational facilities during the depression. In the winter of 1933-34, at least 250,000 certified teachers were unemployed, while in many states the teachers earned less than \$400 yearly. The rural school system approached collapse, with over 5,000 schools closing in 1933. Over 3,000,000 children of school age were not in school. Because youngsters could not get jobs, they swelled the enrollment in high schools, but this was a mere makeshift of no permanent consequence. Universities, with lower appropriations, cut staffs and salaries and limited the number of students. Public libraries were almost crippled by a tremendous shrinkage in staffs and books. The public school situation was most serious. "Our claim," according to one observer, "that the sons of the farm hand and the factory owner through our public schools have the same chance to make good fades daily further into the realm of theory."<sup>11</sup>

Higher education is afflicted by a crisis of overproduction, as in industry itself: by educational excess capacity. Already before 1929 the number of trained people—technicians, professionals, intellectuals—was greater than the market could absorb; and this was true also in the



case of collegians whom education prepared for the noble job of selling bonds and other merchandise. The curve of output was upward, that of demand downward. Educational mass production created the conditions of its doom. Higher education increasingly sloughed off its cultural values; it merely prepared the student for a "better" job, for "rising" in the world. Most of them were disappointed. Now the situation is much worse: overproduction mounts as demand still falls. College students are prepared largely for disemployment, for the surplus population.\* Yet there is tremendous need for professional services. There are great physical, mental, and social wants to be satisfied. Capitalism answers with a growing reaction against higher education, with restriction of educational opportunity.

Underlying these developments is a crisis of education as Enlightenment, a faith in reason, a revolutionary force transforming old and creating and realizing new ways of life. These magnificent aspirations were not fulfilled. They could not be fulfilled because of the class nature of bourgeois education: the bourgeoisie turned against its earlier revolutionary ideals and became reactionary. The university moved toward the more crassly utilitarian and domination by the millionaires who endowed it. Now and then the issue of "academic freedom" was thrust across the march to safe and sane learning: the unavailing protest, ruthlessly suppressed, of a scholar with some sense of the rebel tradition of the university. It was a liberal protest. Now it takes another form and becomes revolutionary. Communist and other rebel elements among students and faculty increasingly demand the "academic freedom" to think, organize, and act independently on the vital issues of the day. *They are the carriers of the early revolutionary ideal of education as Enlightenment, as the solver of social problems, as the creation and realization of new ways of life.* But the rebels are told to shut their mouths. The police are used against them. They are thrown out of

\* The desperation of the college graduate's plight is indicated by the suggestions of Dr. Arthur E. Morgan, college president and now head of the Tennessee Valley Authority, who, according to the *New York Times*, June 17, 1934, urged the graduate to "open up new fields beyond the ranges of custom." What? "There is room for a thousand young men to make themselves expert in preventing soil erosion. . . . Another career is that of irrigation. [With agriculture strangled by its own surplus.] . . . A young woman might build up a good business by training herself in child care and relieving parents of the charge of their youngsters at certain hours of the day. [This was a favorite device of women during the depression: the field is overcrowded and pays almost nothing.] Or she might become an expert in entertaining young people and open up a kind of community centre with the cooperation of her town. Another opportunity for a man might be that of director of safety for a number of small towns." This is what education and opportunity have come to!

college. Forcible means of suppression, hitherto reserved for the workers, are now used against college rebels. (This objective identification of students with the working class must become subjective and active, for the proletarian revolution liberates education of its bourgeois class fetters.) The crisis of education as Enlightenment appeared in the inability to solve social problems in terms of reason, repressed by ruling class interests and necessity. Now this aspect of the crisis appears on an overwhelming scale in the conditions created by the decline of capitalism. Of what avail is education in this social-economic breakdown? Of what avail against the furies of class interest, which condemn millions to disemployment and misery? Of what avail against imperialism and war? Of what avail against fascism, which conjures up the most malevolent passions of reaction to trample upon education, upon civilization itself? Liberals still cling to education, to enlightenment and reason in general. But the faith becomes more hopeless, assumes the degrading forms of ballyhoo, turns into a prop of reaction because it is now a flight from reality and struggle.\*

In this, as in other things, capitalist decline moves toward fascism, which completes the state capitalist tendency toward the "planned limitation" and final degradation of education. It is a starveling and a hireling in Fascist Italy. After fascism came to power in Germany, the number of yearly admissions to the universities was cut from 40,000 to 16,000; education is now "based on brawn, instinct, tribal customs, and morals, the aim to produce loyal, strong, and obedient members of the herd called the Nazi state."<sup>12</sup> Education is limited. It becomes more and more narrowly national, negating the earlier international character of bourgeois learning. What is left is deprived of all spirit and initiative, of all progressive aspects: it is thrust down to the level of black magic, to make the world safe for reaction. For the fascist war against the masses is a war against enlightenment.

Enlightenment for the solving of social problems? That is dangerous, a negation of the reaction upon which capitalism now depends;

\* A similar crisis exists in science. Alongside the great theoretical advances of recent years in science has developed an increasing restriction of its social application. The reaction of capitalism in decline against technical-economic progress must profoundly affect science, if for no other reason because to-day it depends upon the use of large material means. As in the case of education, moreover, the faith in science as the means of solving great social problems has completely demonstrated its futility. Yet scientists still cling to the faith, but it now leads to the acceptance of religion and not its challenge. The bourgeois revolution created modern science; only the proletarian revolution can liberate it.

it means struggle against capitalism and fascism, for socialism and communism.

Storm the heavens? Education now becomes training for storming the strongholds of civilization and destroying them.

7. *No class stratification: The right to move freely from one class to another, including a disregard of class distinctions which colored American life and made it impatient of traditional restraint.*

There never was, of course, a classless society. Yet American society appeared measurably near it in the 1820's-50's, when classes were fluid, distinctions not great or fixed, movement from one class to another freer than before or since. There was no feudal class, the older aristocracy was breaking down, and the agrarian democracy was almost universal. But the "classless" ideal of petty-bourgeois democracy is dependent upon the possession of property, which germinates the seeds of self-destruction. Universal ownership of capitalist property is impossible, as it arises out of a *class* mode of production and the expropriation of producers. Classes were fluid, but they were there, interlocked with the class-economic relations of capitalism. The very factors of class fluidity—the extensive expansion of agriculture and the speed of industrial development—moved toward class stratification: for out of them arose large-scale industry with its propertiless proletariat and "new" middle class, and capitalist farming with its propertiless laborers and tenants. Class fluidity diminished after the Civil War, although still sustained by the capitalist upswing. But fluidity was limited to "rising" within the limits of increasingly rigid class lines. The propertiless workers, becoming the largest class, were definitely consigned to the lower depths. Most of the fluidity was within the "new" middle class and on top, where the new moneybags intruded upon the resentful older possessors of wealth. Farmers were still able to rise, but decreasingly so. Class stratification appeared more definitely and rigidly after the 1900's, with the slowing down of industrial and agricultural expansion and the consolidation of monopoly capitalism. Some measure of fluidity reappeared in the 1920's, but it was almost wholly within the middle class, and class stratification was not in the least altered. Capitalist decline has its own class fluidity, in reverse: large groups of farmers and the middle class are objectively proletarianized, and millions of workers are thrust downward into the "new" class of unemployed.

Impatient of restraint? The restraints of class stratification are multiplied by state capitalism: it cannot tolerate impatience with things as they are under the conditions of capitalist decline. Fascism converts

class stratification into a system of caste, for that is the meaning of the "principle" of hierarchy. Impatience becomes treason and restraint an ideal.

8. *Limited government: The right to minimum interference by the state and faith in the creative action of the people: opposition to bureaucracy as a heritage of monarchy.*

This was the bourgeois ideal of "that government is best which governs least," created in the struggle against the absolute monarchy, itself a product of bourgeois development. It was never a very vigorous ideal, for as an organ of class suppression the state must have unlimited power. It was most cherished in the America of the pre-1850's, primarily because of an independent agrarian democracy and of a society in rapid motion over large, thinly settled areas. But as the motion slowed down and more complex social-economic relations arose, government acquired greater powers. For while the bourgeoisie might object to monarchical state interference against its interests, it demanded state aid in its favor. Strikes and labor revolts had to be crushed. Legislation was necessary to eliminate abuses which threatened capitalism itself. Monopoly capitalism and imperialism enormously enlarged the scope of state power and action. One revealing aspect of these developments was the increasing limitation of "state rights" in favor of the Federal government.

Already before 1929 the ideal of "limited government" was a farce. Now it becomes tragedy, as the decline of capitalism makes necessary an increase in the bureaucratic and repressive forces of the state. State capitalism must prop up the capitalist economy, repress discontent and labor action, prepare for intensified imperialist competition and new wars. Fascism completes this development with the "totalitarian" state: a metaphysical conception of all within the state and for the state, which masks the most brutal reality of the state as an organ of class suppression. Bourgeois society starts with an ideal of "limited government" and ends with the practice of the state *as all*. Apologists of capitalism branded socialism as "the coming slavery." Behold it in fascism!

Creative action by the people? Always limited, it is limited still more by state capitalism and annihilated by fascism. For creative action by the people now means transforming the objective forms of a new social order into socialism.

9. *Peace: The right to peace and the peaceful settlement of disputes; monarchical tyranny means war, while democracy moves toward universal peace.*

This is the most hypocritical of the bourgeois ideals. Not merely is



peace excluded in a class society, but capitalism has enormously augmented the destructiveness of war. The ideal of peace was most real in the America of the 1820's-50's (although it did not prevent aggression against the Indians and war with Mexico, or the Civil War, the greatest slaughter since the Napoleonic era). It arose out of a conviction that war was the result of monarchical tyranny, and should not scourge the Americas. But it did. The ideal of peace acquired great strength also in Europe, in spite of the Franco-Prussian War, during the capitalist upswing after the 1860's. This was particularly true in Britain, "peaceful" because it sat on top of the world. It was, however, the epoch of imperialism, antagonisms sharpened, and both peace and war became instruments of policy. The older imperialist nations wanted peace, the newer considered peace an aggression. Small attention was paid to the "little wars" against colonial peoples, for they yielded profits and were not particularly disturbing. But the conditions underlying these "little wars" prepared the great catastrophe of 1914-1918. The more feverish the war preparations and the nearer catastrophe loomed, the more passionate became the belief in universal peace. The United States was drawn in by the war, in spite of its isolation in the "democratic" new world. The "war to end war" was followed by more wars, and by the greatest war preparations in the history of mankind. Imperialist antagonisms are sharpening, because of capitalist decline, and are driving toward another and more destructive world war. Production is prostrate, but the munitions industry is active; technological progress in general lags, but new and more murderous weapons of war are perfected. In its struggle to prevent the objective forms of a new social order emerging into socialism, capitalism threatens the destruction of all civilization.

One of the objectives of state capitalism, clearly revealed in the NRA, is to augment war preparations, to "unify" the nation economically and politically for imperialist aggression and war. State capitalism still pays lip-service to peace, still considers war essentially as an instrument of policy. But fascism, the final desperate resort of capitalism in decline, not only augments war preparations, it makes an ideal of war.

War, according to Hitler, is to replace the vile ideals of democracy and progress; it must become the great mission of life:

"Once more we want weapons! . . . For the reawakening of the slumbering life-will of the nation. Then everything, from children's primers to the latest paper, every theatre, every cinema, every bulletin board and every empty fence wall, will be placed in the service of this single great mission, until the fear-prayers of our present pseudo-



patriots, 'Lord, make us free!' will be changed, even in the brain of the smallest boy, to the glowing appeal: 'Almighty God, bless our weapons for the future; be just as you have always been just; judge now whether we are worthy of freedom. Lord, bless our struggle!'"

War, according to Mussolini, is a biological function and the supreme creative force:

"War is to man what maternity is to woman. From the philosophical and doctrinal viewpoint I do not believe in perpetual peace. Only a sanguinary effort can reveal the great qualities of peoples and the qualities of the human soul."<sup>14</sup>

These reactionary and barbaric ideas are not new. But until now they were primarily the psychopathic ravings of small groups, useful on occasion as ideological trimming for war as an instrument of policy. States paid at least lip-service to peace. For the fascist, however, war is not merely an instrument of policy, it is an ideal, a thing of beauty and a joy forever. Unlimited powers of coercion are used to impose the ideal upon society. Fascism means war upon the masses, war upon other peoples and cultures, *war as a way of life*.

To what end? That dying capitalism may writhe a bit longer in its death agony. To prevent the birth of a new social order.

*10. Progress: The right and possibility of unlimited progress, the synthesis of all the preceding ideals; a steady, inevitable upward movement to new and finer fulfillments.*

The bourgeoisie wrought the idea of progress, a concept of the utmost creative significance. It arose out of the struggle waged by the new bourgeois class against feudalism on all fronts: economic, political, cultural. Social relations had to become different, to change, to *move*. But not mere motion: it was a concept of development, of continuous upward movement to new objectives. As the bourgeois revolution thrust its ideals beyond immediate class objectives, so the idea of progress soared beyond its class-economic origins. It released the forces of the human will, created a new approach to the world, made man feel himself capable of mastering his fate.

Faith in progress was particularly vital in the American dream. It was invigorated by a new world taking shape in the wilderness, by an almost complete shattering of the fetters of the past, by an extraordinary economic development and its progressive accompaniments. The ideal arising out of these conditions is thus expressed by Dr. Charles A. Beard:

"Underlying all is a belief that the lot of mankind can be continuously improved by research, invention, and taking thought. This is the

philosophy of progress. . . . All legislation, all community action, all individual effort are founded on the assumption that evils can be corrected, problems solved, the ills of life minimized and its blessings multiplied by rational methods, intelligently applied. Essentially by this faith is American civilization justified."<sup>15</sup>

This ideal was always limited and distorted in practice. It is now, in its bourgeois form, a mere pitiable echo of what has been and a tragic ignoring of what might be. For Dr. Beard speaks (in 1932!) as if the ideal was now in action: but what a mockery of progress, of the rational and intelligent, is the social-economic breakdown created by the crisis of the capitalist system! Dr. Beard speaks as if capitalism is identified with progress everlasting: but capitalism, limiting progress even in the epoch of upswing, now in its decline openly revolts against progress and all its works, because they undermine the existing order.

The revolt against progress originates in the movement of economic forces. Capitalist progress emphasizes the material. While crudely interpreted as mere money-making by the bourgeois, material progress transformed the old world and set in motion forces of ideological change which reacted on the general movement of social progress. But this was conditioned by class-economic factors. It was a response to the needs of the bourgeois economic order, whose upthrust and development destroyed old relations and created new ones. The underlying driving force was the self-expansion of capitalist production: the production and realization of surplus value, the development of larger markets, the industrialization of new regions. The moment comes, however, when economic progress is limited by the movement of capitalist production itself. Production and realization of surplus value move downward because of the increasingly higher composition of capital and mass unemployment. The productivity of labor creates an abundance which presses upon contracting markets and endangers profit. Industrialization of new regions is either completed or prevented by the contradictions of monopoly capitalism. Capitalism is undermined by the very productive forces it called into being. The formerly relative self-destructive character of capitalist production now becomes absolute. It resorts to limitation of output on a mass scale: repression of the productive forces of society. Out of decline and decay arises the capitalist revolt against economic progress.

The revolt against economic progress becomes an ideological revolt. Progress means the continuous upward movement of society. But capitalism is not eternal; it is not immune to the law of social succession. Basing himself on the idea of progress and its manifestations in the

dialectical movement of capitalist production, Marx saw the relations of a new social order developing within the shell of the old. Capitalism created collective or social forms of production, the objective basis of socialism. The capitalist bourgeoisie moved and had its being by creating the industrial proletariat, the objective carrier of socialism. As this dialectical movement appeared more clearly, threatening the old order, the bourgeois idea of progress began to change. Where formerly it included the revolutionary transformation of an old social order by the new, progress was now limited to mere change and pedestrian reform within the existing order. Among small but important intellectual groups a whole philosophy arose embodying a reaction against progress: limiting, scoffing, rejecting, mobilizing all the resources of the human mind to prove that progress was a delusion and a snare. Now the philosophy opposed to progress is seized upon by the capitalist class. For capitalism has outlived its historical utility. It is in the epoch of decline and decay. Progress is now realizable only in a form which endangers capitalist rule, by socialism releasing the creative social-economic forces of society, by the revolutionary struggle for power of the proletariat and its allies. Hence capitalism reacts against progress on all fronts: economic, political, cultural. Progress now again means the necessity of revolutionary change.

State capitalism clings to progress in words. But where is it in practice? The real job of state capitalism is to prop up the old order, to make it more resistant to progress, or socialism. State capitalism merely tries to "freeze" the breakdown and decay of capitalist decline. This eventually manifests itself in the fascist repudiation of the idea of progress. Fascism fuses into a system all the old reactionary ideas opposed to progress and deliberately moves backward to revival of a mixture of Cæsarism and medievalism, which was emphatically rejected by the revolutionary bourgeoisie. Reaction becomes a faith and retrogression its works.

New and finer fulfillments? They are doomed by capitalist decline and decay. New and finer fulfillments of progress are potential only in the revolutionary struggle for power, for socialism and communism.

Thus capitalism is driven to revolt against progress and all the other ideals of the American dream and of the bourgeois revolution. Now, in ideological form, the forces which sustained capitalism turn into their opposites and become its antagonists. For the ideals, seizing upon great masses, are an historical force. The masses believe in them and want them realized, having measurably identified them with their own mixed, groping, yet definitely plebeian aspirations. Cultural lag is iden-

tified with the bourgeois form of the ideals, with faith in the possibility of their realization in the existing order. As capitalist decline increasingly limits their already incomplete realization and moves toward their destruction, including destruction of the concrete democratic rights of the workers, the ideals become dangerous, for it is impressed upon the masses that they are realizable only in new forms and in a new social order.

This is the crisis of the American dream, underlying the class-ideological crisis created by the decline of capitalism. The crisis prepares the subjective conditions of fundamental social change. For the objective clash between the old and the new order must become a conscious class struggle, which transforms the quantity of accumulated social-economic changes into the quality of revolutionary action for the new social order. A class, in this case the proletariat, cannot become revolutionary and perform its historic task, cannot carry on the struggle for power, until it has broken the ideological fetters of the old order: it must replace the old faith with its own consciousness and ideals, and make the new world they express acceptable to the other exploited elements of society.

The ideals of the American dream, of the bourgeois revolution, become an ideological factor in the struggle for power. Ideology is itself a social force. The liberal middle class wants to "save" the ideals by "more generous" distribution of small independent property, clinging still to a petty-bourgeois world which monopoly capitalism and imperialism have destroyed. Moderate reformist socialism wants the peaceful, gradual development of the ideals toward a new order, and is, along with them, annihilated by fascism. The capitalist bourgeoisie wants to retain and "revive" the ideals as ideological trimming while increasingly limiting them in practice, or completely destroying them by resort to fascism and its "ideal" of negating progress. The communist proletariat wants to transform and realize them in the newer and finer fulfillments of socialism, precisely as it wants to transform and more fully realize the material promise of capitalist production. This is possible only after the conquest of power by the revolutionary proletariat and the overthrow of capitalist rule. The "self-movement" of the progressive forces of capitalism, particularly in the epoch of decline, does not lead, as petty-bourgeois radicalism and moderate socialism believe, toward a new social order: for state capitalism tramples upon the progressive forces and fascism suppresses them. This is inevitable as long as capitalism holds the repressive powers of the state: it will not yield up the powers peacefully but must be forcibly



deprived of them. Only revolutionary action can do this, only the dictatorship of the proletariat can uproot capitalist relations, suppress any upsurge of reactionary elements, and set in motion an uninterrupted movement toward the new social order of socialism.

Unlike fascism, which makes dictatorship an ideal and eternal, communism considers the dictatorship of the proletariat as wholly temporary and functional, necessary only to consolidate the revolutionary power and create the relations of the new social order. Unlike fascism, which repudiates progress and all its ideals, communism accepts them as historical forces in transition (bourgeois society is the most transitional of all social systems) toward new forms and fulfillments, cleansing them of the elements and limitations identified with class exploitation and property. . . . Liberty and individualism are deprived of all meaning in terms of economic individualism and the liberty of one class to exploit another. No ingrown class forms of either which deny them to the mass! Economic collectivism liberates the human and cultural forces of liberty and individualism and makes them accessible to all. . . . Democracy is proletarian democracy, embracing the immense majority of the people; made complete and habitual by socialism, it becomes the freedom of communism. . . . The abolition of classes makes possible the abolition of social inequality: first the enormous inequality of capitalism, then the lesser inequality of the socialist transition period. Differences of individual endowment do not give the right or the power to exploit others, but are merely the source of variations in the human and cultural symphony of society. . . . Mass well-being: it is the primary objective, no longer limited by class rule and profit. . . . Opportunity ceases to be identified with rising over the masses or the acquisition of property: it is a mass opportunity to share in *life* fully and greatly. . . . Education, its class fetters broken, is creative mass preparation for a way of life, the union of labor and culture. Its scope grows immensely; with abundance and leisure mass participation in higher learning moves on until it is universal. Socialism is mastery of the world and life: hence the emphasis on education. . . . There is no class stratification, as classes are abolished. . . . Where capitalism starts with the "ideal" of limited government and ends with the all-devouring "totalitarian" state of fascism, socialism starts with the dictatorship of the proletariat and ends with the dissolution of the state into the community of integrally organized producers, manual and mental. For socialism needs a state only so long as there is capitalist reaction to suppress, national and international. . . . Peace ceases being merely an aspiration; it is fully realizable when



class-economic antagonisms are wiped out on a world scale. . . . Progress, freed of its class limitations and antagonisms, acquires a new spirit, becomes the object of deliberate aspiration, planning, and fulfillment. Culture, always limited and exclusive and now threatened by capitalist decline, experiences an immense quantitative and qualitative upsurge.

That is the promise of the proletarian revolution and communism. *It is a promise whose elements already exist, alongside their reactionary opposites, within capitalist society, repressed by the old order but potential of the new: they need only to be released to move onward to the society of the free and equal.*

## The American Revolution

THE decline of American capitalism and its class-ideological crisis set in motion the forces preparing a *new* American, the coming communist, revolution. Apologists insist that revolution is alien to the traditions of the American people. That means simply this: revolution is now alien to the exploiting and decaying capitalist class whose interests are rationalized by the apologists and menaced by revolution.

Revolution has played a decisive part in American development. Colonial migrations were thrust forth by the developing bourgeois revolution in Europe and its transformation of the old feudal order. Some of the most fundamental and uncompromising aspects of the revolution were represented by the Puritan settlers. Their ideals of individual and social freedom, created in the struggle against the old order, were progressive in spite of their theological forms and class limitations. Many Puritan sects broke through the limitations and urged equalitarian democratic reforms, including in some cases ownership of property in common. Colonial class struggles produced several minor revolts. The bourgeoisie secured its independence of Britain by means of revolution, and sounded the tocsin for the French Revolution of 1789. The revolutionary American bourgeoisie organized itself as a practical dictatorship. Nor was it bothered by the fact that it represented a militant minority only, for roughly two-thirds of the people were either indifferent or actively antagonistic: the opposition was violently coerced, where necessary, and Loyalists were expropriated. Tom Paine and Sam Adams were professional revolutionists who deliberately and consciously planned the revolution through years of agitation and organization.\* The Committees of Correspondence were really a

\* "Two—Samuel Adams and Thomas Paine—may almost be called professionals, save that their interests alone employed them. Emerson's explanation of great men illuminates our knowledge of these two: 'Every master has found his materials collected, and his power lay in his sympathy with his people and in his love of the materials he wrought in.' At hand for their use were the accumulated discontent of a hundred and fifty years' restive development under English control, the turbulent forces creating the inchoate Americanism they perceived, and the eighteenth century compact philosophy that was to make them free. To unite all America in one pulsating hope, to vitalize that hope with the new philosophy, this was their task. They could

revolutionary party measurably aware of purposes and means, including the extra-legal. Shays' Rebellion, an agrarian revolt against reactionary class aspects of the new government's policy, led Thomas Jefferson to hope there would be a rebellion every twenty years, because "the tree of liberty must be refreshed from time to time with the blood of tyrants." After independence was secured, the French Revolution became an ideological rallying force in the American struggle between "the masses" and "the classes." The new republic encouraged revolutions in Latin America, declared it would oppose European efforts to restore or extend colonial rule, and became the refuge of political exiles.

In the essentially revolutionary struggle of the Civil War, the bourgeoisie completed its revolution by destroying the slave power, industrial capitalists acquired control of the government, and the conquest of power was implemented by the ruthless dictatorship and expropriation of Reconstruction. Then the dominant capitalist class set itself as flint against revolutionary ideas (which, in the case of the Civil War, had been forced to break the barriers of an inept, cowardly policy of compromise with the slave South). The dominant class increasingly rejected the older ideals of liberty and democracy, while imperialism made the United States an international reactionary force instead of a progressive one. Sam Adams, the organizer of the American Revolution, had long since been thrust into obscurity. Now they "reinterpreted" Reconstruction, which offers the proletariat an example of dictatorship and force, and blackened the character of Thaddeus Stevens, the most revolutionary and implacable enemy of slavery. Yet they cannot alter the indisputable historical fact: *the American bourgeoisie rose to power by means of one revolution and consolidated that power by means of another. . . .*

Revolutions are inevitable. That is the conclusion of a bourgeois student of the "natural history" of revolution. Social-economic and class forces develop to a point where a sharp revolutionary break becomes necessary. The conclusion is thus amplified:

"This country, in common with all others in which the industrial

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succeed, for they had a secret knowledge of what the people thought, wished, feared, and hated, and the power to interpret for the public 'its own conscience and its own consciousness'—therein lay their strength." Philip G. Davidson, "Whig Propagandists of the Revolution," *American Historical Review*, April, 1934, p. 443. These are the background and the course, under other class-economic relations and with other class purposes, of the communist agitators and organizers who prepare the coming American proletarian revolution.

revolution has developed, is destined to evolve through capitalism into some sort of social control of industry. . . . A laboring man of to-day is a person still insignificant compared with the capitalist. But through the agency of his organization he is superior to the farmer. The laboring man seems destined to be the ruler of the future. . . . We may take it for granted that revolutions, even violent revolutions, will occur periodically for a long time to come. We hear some talk of substituting peaceable evolution for violent revolution, but such talk is only what the theologians call 'pious opinion'—laudable, but imaginative. No technology is being developed for the purpose of translating this talk into action."<sup>1</sup>

The bourgeois student of revolutions portrays their characteristics in meaningless social-psychological terms: the Puritan revolution was "pious," the American "mild," the French "ferocious." But all three were manifestations of the onward sweep of the bourgeois struggle for power. The piety of the Puritans did not prevent the execution of a king nor the use of dictatorship and force to crush the opposition, while the two American revolutions were far from mild in suppressing and expropriating their enemies. Revolutionary force is conditioned almost wholly by the scope and intensity of the old order's resort to violence to regain its power.

In terms of history and sociology the "natural history" of revolutions must include:

1. The *general* character of revolutions, the aspects which determine their *unity* in cause, purpose, and means. This unity indicates that they are an historical series, one revolution arising and succeeding another out of the same general conditions as an inescapable determinant of social progress.

2. The *specific* character of revolutions, the aspects which determine their *diversity* in cause, purpose, and means. This diversity expresses the differences distinguishing one revolution from another in class make-up, purposes, and operating conditions.

The general unity of revolutions appears in the fact that they are a completion of fundamental social-economic changes. At the basis of revolution is the development of new forms of production and their increasing clash with the old, not merely in their technical-economic but in their class-political aspects. The clash might be resolved in terms of necessity and efficiency *if* technology and economics were the *only* conditioning factors and not themselves conditioned by a series of other factors. The technical-economic foundations of the clashing forms of production are interwoven with definite class, cultural, and political

relations and institutions. Consequently the clash between old and new is resolved socially, by means of the class struggle and its economic, cultural, and political impacts. *Economic*, as old and new forms and relations of production clash; *cultural*, as the dominant culture and ideology represent the older relations of production, class interests, and class rule, against which arises the cultural and ideological revolt of the class representing the new relations of production; *political*, as the class struggle, the purposive or "subjective" factor in social change and revolution, is directed toward the retention or conquest of political power. Two general sets of factors underly the revolutionary struggle:

The long-time factors of revolution—the accumulation of economic, cultural, and political changes arising out of the development of new forms and relations of production, a new social order, within the shell of the old; this increasingly saps the foundations of the old order and prepares the objective, or class-economic, and the subjective, or class-ideological, conditions for a revolutionary overthrow.

The short-time factors of revolution—the accumulation of economic, ideological, and political changes, which aggravates contradictions and antagonisms arising out of an intensified clash between the old and new forms and relations of production; this results in decline and decay, and, as the ruling class fails to "deliver the goods," mass faith in the old order breaks down and provides the revolutionary class with the opportunity to strike for the conquest of political power.

But within the general unity of revolutions there is a diversity which does not contradict the unity but historically complements it. Unity is in the purpose, the conquest of political power and the consolidation of the new order; diversity is in the means adopted to accomplish the purpose and in the forms of the new order. Means change because of changes in the technical-economic foundations of production and its social relations, in class alignments and political forms, in the character of the revolutionary class; the two constants in the means, force and dictatorship, change in their bases, application, and class objectives. The most fundamental difference in means is determined by the fact that the bourgeoisie was a propertied class, the proletariat is a non-propertied class.\* The fundamental difference in forms of the new order is this: Bourgeois revolution meant the rise to power of another propertied, exploiting class and a new system of class rule and exploitation: capitalism represents *partly* and *only for a time* the progressive forces of society, stifles new progressive forces, and eventually reacts

\* This subject was discussed in Chapter XXIV, "State Capitalism, Planning, and Fascism."



against progress to maintain its rule. Proletarian revolution means the rise to power of a non-propertied, non-exploiting class and the resulting abolition of class rule and exploitation: socialism represents *all* and *continuously* the progressive forces of society, and liberates the forces of the onward movement toward the higher social system of communism.

While the major aspects of diversity are determined by differences in the successive revolutionary classes and the new social-economic conditions under which they operate, there are minor aspects of diversity in the revolutions of a particular class. The classical bourgeois revolutions were marked by considerable diversity within the limits of their essential unity. A belated bourgeois democratic revolution in Russia was succeeded almost immediately by the proletarian revolution. In colonial and semi-colonial lands, the bourgeois democratic revolution is now bound up with the anti-imperialist struggle for national liberation and the independent revolutionary upsurge of the workers and peasants. National differences in class-economic development, traditions, and ideology also impart diversity to the proletarian revolution, although it is much more unified than its predecessors.

One of the most important aspects of the diversity of revolutions is an *acceleration of the revolutionary process*, progressively shortening the intervals between one revolution and another. This is the joint result of differences in the technical-economic foundations of society and of an *increasingly purposive character in revolution* involving a larger awareness of purposes and means.\*

The revolutionary process was extremely slow, almost non-existent, in the ancient world. A commercial bourgeoisie arose, but it was unable to break through the barriers of the old order (this was also true later, and on a much larger scale, in India and China). Civilization after civilization stagnated or collapsed because of the slow growth of new social-economic forces. The class struggles which rent the Roman Empire for 500 years resulted in "the common ruin of the contending classes,"<sup>2</sup> in spite of the economic beginnings of serfdom which anticipated feudalism: the Empire broke down under the weight of its inner

\* Cultural borrowing and diffusion are important factors in the increasingly purposive character of revolutions. France secured many of its revolutionary ideas from England, which in turn had borrowed from the Italian and Dutch bourgeoisie. The ideology of the American Revolution was imported bodily from Europe. Yet the bourgeoisie to-day objects to "foreign" ideas of revolution! While cultural borrowing and diffusion were present in the bourgeois revolutions, they appear most clearly and creatively in the proletarian revolution, particularly the Russian. They are of exceptional creative significance in economically backward lands.

decomposition and the outer impact of the barbarian invasions (the whole constituting a social revolution). Although feudalism had a shorter span of life than the ancient world, it endured nearly 1,000 years before a revolutionary process began with the rise of the bourgeoisie, whose free towns and free wage labor upset feudal-serf relations. Within 300 years in England and 400 years in France, the bourgeois revolution was triumphant; 100 years later, capitalism, dominating the world, began to decline and decay. Acceleration was marked in the bourgeois revolution and its social changes. It is still more marked in the proletarian revolution. Capitalism was challenged in 1848, by a small insignificant group of communist exiles who issued the *Communist Manifesto*. The proletariat was a small class, isolated, brutally exploited, despised. Yet, with the creative insight of scientific understanding, Marx saw in the proletariat the class destined to overthrow capitalism, end class rule and exploitation, and transform the world. This was sheer madness to the vulgarly comfortable bourgeois and philanthropic reformers. But the proletariat was the typical, permanent class creation of capitalism, a class growing in numbers, organized by the mechanism of capitalist production itself, becoming increasingly aware of its revolutionary tasks. Seventy years after the *Communist Manifesto* was issued, the proletarian revolution was triumphant in Russia, the Soviet Union celebrated its sixteenth anniversary fifty years after the death of Marx, and now capitalism everywhere is not merely challenged but threatened by international communism. Acceleration is cumulative.

*Objectively*, the acceleration of the proletarian revolutionary process is determined by the constantly swifter tempo of technical-economic change under capitalism and its impact on social relations. Former social systems were comparatively static, capitalism is demoniacally dynamic, its technical-economic conditions perpetually changed by the technological application of science and the pressure of accumulation. Capitalist production must expand or break down. Yet capitalism itself develops the forces which impose iron fetters upon its expansion. This appears in relative form in the increasingly disastrous cyclical disturbances, and in absolute form in the decline and decay of capitalism. Decline and decay flourish in the midst of all the class-economic factors necessary for the transition to a new social order: the collective forms of production, which are the objective basis of socialism, and the proletariat, which is the carrier of socialism. Capitalism is not merely transitional, it is the most transitional of all social systems. It has neither the economic nor the cultural stability and "wholeness"

of earlier systems; more than its predecessors, capitalism is driven onward by social-economic change. Any society based on class antagonisms must end in revolution or decline. But capitalism endures least of all. It is driven mercilessly and swiftly to create its own negation. It is merely a promise of socialism. Precisely because it has been the most progressive of systems, capitalism speeds up the process of social change and revolutionary action.

*Subjectively*, the acceleration of the revolutionary process is determined by the constantly more conscious and purposive factors in revolution. There was no awareness of the purposes and means of revolution in the ancient world. Awareness appears in the bourgeois revolutions, if incompletely and mainly in the later phases. The conscious and purposive factors appear completely only in the proletarian revolution, for Marxism-Leninism, which is communism, is scientifically aware of the laws of social development underlying and conditioning program and action. Because of awareness of purposes and means, immediate and final, Marxism-Leninism consciously and creatively acts upon class-economic forces to accomplish its purposes. It is no longer largely a case of the impact of social forces upon revolutionary purposes and means, but of the impact as well of purposes and means upon social forces. *Awareness becomes itself a social force.* This manifested itself on a magnificent scale in the proletarian revolution in Russia, where Bolshevik awareness of purposes and means creatively acted upon the class-ideological crisis produced by an unusual combination of circumstances to accelerate the revolutionary process, to drive on to a socialist conclusion while mechanical Menshevik "Marxists" insisted that only a capitalist conclusion was possible and advisable. Marxism is a form of social engineering.\* Man, the worker, dominates *this* revolution.

\* But in only *one* of its aspects. The engineering aspect of Marxism, which is simply the concrete application of its scientific awareness, is not the *whole* of Marxism, nor does it imply acceptance of science to the exclusion of philosophy. Engineering is merely the technological application of science; it does not set goals but realizes goals set for it and with the means science and society provide. Hence engineering may be distorted for stupid and reactionary ends. As science expands, the necessity of a philosophical synthesis becomes increasingly apparent, and it is only the pedestrian or reactionary scientist who casts loose from philosophy (or seeks to restore Deity in the universe under new forms). The engineering aspect of Marxism is the concrete expression of the unity of theory and practice, based upon a conception of history, economics, and society and a method of revolution, all implemented in the philosophy of dialectical materialism. A whole cultural revolution is involved in the social-economic reorganization envisaged by Marxism, whose essential oneness appears in the creative unity of its philosophy.

This communist awareness of purposes and means is becoming a creative social force in American society, which is definitely moving toward the conditions of a revolutionary struggle for power. The struggle has been slow in coming, primarily because the unusually swift tempo and great magnitude of American economic progress checked and distorted the elements of proletarian class-consciousness and action. But the tempo and the magnitude, now in reverse action, will henceforth as effectively hasten revolutionary action as formerly they retarded it. They make the crisis and its pressure more acute. Nowhere are the collective forms of production as highly developed; nowhere is the clash as sharp between them and the older relations of individual ownership and appropriation. The new order strains insistently against the class-economic fetters of the old relations. The new revolutionary class strains insistently against the class-ideological fetters restraining its independence and action. Communist awareness intervenes in a situation which is the product of the whole development of American society. The immediate factors involved are five-fold:

1. Capitalist decline and decay create a crisis of the system which throws society into convulsions, breaks down faith in the existing order, and sets the various classes in motion toward a struggle for power.

2. The upper bourgeoisie, the financial capitalists and their underlings, clings to power and attempts to thrust all the burdens of decline upon the workers, farmers, and lower bourgeoisie. Repressive measures are multiplied and imperialism is intensified as a way out of the crisis.

3. The farmers are inescapably entangled in the agricultural crisis, increasingly deprived of their propertyed independence. They cannot escape under capitalism and by their own efforts. The farmers are incapable of initiating an independent historical program and struggle, but must ally themselves with some other, more powerful class.

4. The middle class, tormented by decreasing opportunity and increasing insecurity, its members more and more thrust down into the surplus population, begins to initiate and support new reform movements, including state capitalism and national economic planning. As the middle class is incapable of initiating an independent historical program and struggle, it must ally itself with some other, more powerful class.

5. The industrial proletariat and the other groups of the working class, beset by unemployment, lower standards of living, and repres-



sion, emerge as a class conscious of itself and waging war upon capitalism, its awareness of purposes and means constantly broadening and deepening until it engages in the revolutionary struggle for power under communist leadership.

In the struggle for power the two decisive classes are the proletariat and the upper bourgeoisie (who struggle for hegemony over the other classes and groups)—the one as representative of the relations of the new social order, the other as representative of the old. The interests of the proletariat are class interests, but they express the progressive interests of society in general. For if the revolutionary workers do not act, if the basic economic drive of capitalism—production and realization of surplus value, the accumulation of capital—is left to work itself out unchecked, then decline and decay must doom civilization itself. Hence the significance of the proletariat as the carrier of the new social order, of socialism.

The struggle is irreconcilable as it represents the clash of two systems. If capitalism prevents the emergence of socialism, decline and decay must ensue. If socialism emerges, capitalism is crushed. Liberals who catch ideas on the wing, combine them haphazardly, never bother with fundamentals, and scornfully reject the Marxist analysis of class-economic forces, antagonisms, and development—these liberals propose to “reconcile” the struggle, combine the “best” features of capitalism and socialism: “Beyond lies the struggle between the systems called communism and capitalism, Russia being champion of one, the United States of the other. . . . Both systems in the last analysis have similar goals, of which the most immediate and important is the abolition of poverty[!] . . . Conceivably the two systems might ultimately fuse into one basic pattern. In it the best features of both private enterprise and state control would be retained.”<sup>3</sup> This is state capitalism, the bastardized socialism used by the ruling class to maintain its power. It is not the “fusing” of two systems “into one basic pattern.” It is merely an aspect of the capitalist struggle for power, against which the proletariat must thrust its own revolutionary force and Marxist consciousness.

But, answer the liberals, Marxism is alien to the “American mind,” an imported ideology. Yet the “American mind” of the colonial era accepted an imported revolutionary ideology that met the needs of the rising bourgeois class. The social or national “mind,” moreover, changes in accordance with changes in social-economic relations and class needs. An ideology may linger beyond its material basis, but only precariously and under sentence of death. The “American mind”



has accepted ideas and institutions which it subsequently rejected, and this process has not come to a standstill (except in the minds of the ruling class and its apologists). Marxism is alien neither to the American nor any other national "mind." For Marxism is the scientific, dynamic, always enriched crystallization of the needs and experiences of the working class in its struggle for emancipation, and it is acceptable to any working class moving toward the struggle for power.

They say the American labor movement has no Marxist or revolutionary traditions. But this, even *if* it were true, is not particularly relevant. Revolutions do not arise because of revolutionary traditions, and they may arise without any traditions. A class in action to overthrow an outworn social order creates its own revolutionary traditions.

The implication is not merely that American labor has developed on a non-Marxist basis, but *contrary* to the Marxist analysis of the class struggle and its revolutionary function. This is a complete misunderstanding both of the American labor movement and of Marxism.

One may say with strict Marxist accuracy: the development of capitalism creates the objective conditions for socialism by socializing production and making the proletariat the most important class economically; the pressure of capitalist exploitation forces the workers to organize against the exploiters in an independent class movement; struggle and experience, plus the theoretical activity of the more conscious and revolutionary minority, impart to the labor movement increasingly larger objectives, militancy, and awareness, until eventually it initiates a revolutionary struggle for power and the overthrow of capitalism.

This formulation apparently excludes the American labor movement. Capitalism was most highly developed in the United States, yet the revolutionary aspects of its labor movement were insignificant. But the Marxist conception is more dialectical, richer, more varied than its general formulation, which characterizes the *main* features of a whole historical epoch. Within this epoch, peculiarities of national development due to the uneven growth of capitalism, cultural lag, and other factors may temporarily produce combinations apparently contradictory of the general formulation: capitalism + proletariat = revolutionary labor movement. Marx himself said:

"The specific economic form, in which unpaid surplus labor is pumped out of the direct producers, determines the relation of rulers and ruled, as it grows immediately out of production itself and reacts upon it as a determining element. . . . The form of this relation between rulers and ruled naturally corresponds always with a definite

stage in the development of the methods of labor and of its productive social power. This does not prevent the same economic basis from showing infinite variations and gradations in its appearance, even though its principal conditions are everywhere the same. This is due to innumerable outside circumstances, natural environment, race peculiarities, outside historical influences, and so forth, all of which must be ascertained by careful analysis.”<sup>4</sup>

It was primarily the peculiarity that Britain, from 1870 to 1900, had almost a monopoly of imperialist exploitation, in the profits of which the upper layers of the working class shared, that retarded the growth of a class-conscious labor movement. This peculiarity of economic development intensified the separation of organized skilled workers from the unorganized unskilled, while the prevailing class relations permitted an alliance between laborites and liberals. Yet out of the pressure of events and capitalist decline emerged a class labor movement, which to-day objectively challenges capitalism and whose reformist limitations and frustration project the necessity of communist struggle and revolution.

What are the peculiarities of the American labor movement and how are they explicable in terms of concrete application of the Marxist conception?

The development of the labor movement in the more industrial nations of Europe may roughly be divided into three stages:

1. The stage of militant revolt against the horrors and increasing misery of the earlier industrialism. Workers went beyond their immediate economic needs and developed revolutionary aspirations; they acted as the left wing of bourgeois revolutions (France, Germany) and appeared as an independent class on the social scene. At this stage the theory and tactics of Marxism appeared. The stage ended with the collapse of the First International, the workers beaten back by insufficient class strength and the economic upswing of capitalism. The Paris Commune marked the end of an epoch—although it also projected the new epoch of proletarian dictatorship.

2. The moderate stage of the organization of labor (trade unions, socialist party) and improvement of its conditions, made possible by the upswing of capitalism. Nevertheless, the labor movement had a conscious class and even socialist character. This was not only due to socialist agitation, but to the rigidity of class lines and isolation of the workers from the peasantry and the middle class, forcing them to depend upon their own class action. Socialism, however, was given a moderate reformist slant: it was the carrier of petty-bourgeois democratic

reform (because of incomplete bourgeois revolutions and feudal hangovers) and transformed Marxism into a theory of "social revolution" by means of gradual, progressive reforms, of "growing into" socialism—which in practice meant growing into state capitalism and imperialism.

3. The revolutionary stage, during which the proletariat returns to its earlier militancy on a higher level.\* It coincided with the beginnings of the decline of capitalism, and was already apparent before the World War, when there was an increasing demand for more revolutionary socialist action. This stage is determined by the slowing down and relative decline of economic development, a downward tendency in the workers' standard of living, and the aggravation of class antagonisms by monopoly capitalism and imperialism. The World War, a product of imperialism, accelerated the decline of capitalism and consequent impoverishment of the masses, meant a reversion to the earlier tendency of increasing misery, and thrust the working class on to more revolutionary action. Monopoly capitalism and imperialism signalize capitalist decline and proletarian revolution. The communist revolution in Russia and the revolutionary struggles in Europe and Asia mark the beginning of the epoch of the decisive struggle for power, of the world revolution.

Thus far the American labor movement has also had three stages. But one of its stages never appeared in Europe, it is only now in the stage of capitalist decline and approaching revolutionary struggle, and its whole development was profoundly influenced by national peculiarities in economic development and class relations.

There was no upthrust of left wing proletarian elements in the American Revolution, as in the English and the French (Levellers, Babeuf). Nor was the American Revolution as drastic, for there was no feudalism and the farmers were not an oppressed peasantry. Shays' Rebellion was one of those agrarian-debtor revolts which run like a red thread through American history. Thus, unlike Europe, the American bourgeois revolution did not lead to the appearance of a revolutionary proletarian left wing.

While in Europe, in the period 1820–50, the workers emerged as a

\* In the case of Russia the first and third stages practically coincided. The workers' militant resistance to developing industrialism persisted into the epoch of imperialist war and intensification of the class struggle, and coincided with a belated bourgeois democratic revolution. The creative Marxist theory and practice of the Bolshevik party decisively used the favorable combination of circumstances for the proletarian revolution. Peculiarities of Russian development accelerated the revolutionary process, where the process was elsewhere retarded by other peculiarities.

measurably independent class, engaged in militant struggle, and forged the theory and tactics of socialism, the American workers were not only still inchoate as a class but were almost wholly under the influence of agrarian radicalism. Nowhere in Europe was there an aggressive agrarian class in action (except later in Russia, and there in a form different from the American). The agrarian class was insignificant in Britain, subordinate to *Junkertum* in Germany, and satisfied with its small holdings in France. American agrarians, on the contrary, constituted a class infinitely larger than the working class, increasing twice as rapidly as the rest of the population, and markedly independent, which dominated social protest and politics for two generations. Agrarian radicalism, from its philosophical expression in Jefferson to the practical politics of Jackson, was crudely but militantly anti-capitalist and impressed itself on labor's program and ideology. But agrarian radicalism is anti-capitalist only in the most petty-bourgeois sense, and this was particularly true of the American variety. American agriculture, owing to the perpetual renewal of the frontier and its new lands, acquired, along with its democratic propertied independence, an intensely speculative capitalist character. In spite of its radicalism, American agriculture strengthened capitalism economically and ideologically.

The early American labor movement (1825-35) was composed mainly of craftsmen and mechanics, either independent or employed in petty enterprises. Typical industrial workers, except in textiles, were scarce; the American factory system was not only infinitely smaller than in England but even smaller than in France and Germany, where the output of manufactures considerably exceeded the output in the United States. Thus, in 1840, while England produced 1,390,000 tons of pig iron and France 350,000 tons, the United States produced only 290,000 tons, not much more than Germany's 170,000 tons.<sup>5</sup> The individualism of the craftsmen and mechanics (many of whom, including some of the union organizers, were alternately employers and workers while employers were frequently members of the unions), predisposed them to agrarian radicalism and ideology. Labor supported the Jacksonian revolt, and independent labor parties had major agrarian radical demands along with specific labor and democratic demands, while the philosophers of the movement were almost wholly agrarians. These philosophers appealed to "the dispossessed" and urged an "equal division of property."<sup>6</sup>

Agrarianism was rooted in strong and persistent economic conditions and class relations. Migration to the frontier now assumed larger pro-



portions, with the opening of the Ohio Valley, and intensified the struggle for free land. It was not, however, simply a matter of the more aggressive workers in revolt against conditions of life and labor migrating to the frontier and thus depriving the working class of the elements most capable of building a militant movement. This was undoubtedly significant, but the majority of workers did not migrate, and the migration overseas of workers did not prevent the growth of a class labor movement in Europe. More significant was the perpetual renewal of classes by successive sectional development, which prevented coalescence of the workers as a conscious and independent class and by the fluidity of classes within the older settled regions. Workers in the older regions might begin to develop a class program and ideology; this development was retarded, distorted, and upset by the emergence of workers in the newly settled regions who were submerged by the petty-bourgeois agrarian ideology and radicalism. In Europe there was an economic expansion within the old circles of class relations; in the United States new circles were formed by sectional expansion, which recapitulated the development from lower to higher, from older to newer, forms both in economy and class relations. Moreover, the agrarian class was much larger and grew more rapidly than the workers; it was a petty-bourgeois class waging war against developing capitalism and consequently distorted the ideology and program of the workers, as industrialism was still to conquer the American scene. There was militant struggle and organization among the workers, but whenever they went beyond ordinary shop and specific labor demands and formulated general political demands the labor parties, for the most part, accepted the slogans, program, and ideology of the agrarian radicals. The instability of class relations and agrarian influences prevented labor from separating itself from alien class influences, of developing an independent class movement such as developed in Europe during this period. There was no comparable European stage, as there was no comparable phenomenon of the successive sectional development of an expanding frontier and its influence on class relations.

All these elements were bound up with the prevalence of democracy and the absence of those petty-bourgeois revolutionary democratic struggles which were so important in developing the militancy and consciousness of European workers. Of this peculiarity, Marx said in 1852: "With nations enjoying an older civilization, having developed class distinctions, modern conditions of production, an intellectual consciousness wherein all traditions of old have been dissolved through the work of centuries . . . the republic means only the *political revolu-*



*tionary form of bourgeois society, not its conservative form of existence, as is the case in the United States of America, where, true enough, the classes already exist, but have not yet acquired permanent character, are in constant flux and reflux, constantly changing their elements and yielding them up to one another; where the modern means of production, instead of coinciding with a stagnant population, rather compensate for the relative scarcity of heads and hands; and, finally, where the feverishly youthful life of material production, which has to appropriate a new world to itself, has so far left neither time nor opportunity to abolish the illusions of old."*<sup>7</sup> . . .

Industrialism had made great progress by 1850-60, but the older class relations and ideology persisted, although the newly revived unions had partly shaken off alien class influences (employers were now excluded from membership). The unions were still composed mainly of craftsmen and mechanics. Progressive labor was caught in the struggle for free land and over slave or free labor. Slavery was a vital issue, but the workers' attitude was more a reflection of the interests of Western agrarians than of their own class interests. Unionism was practically destroyed by the crisis of 1857, and then the Civil War intervened. During the war, labor had no independent program. It was the passive ally of Western farmers and Northern capitalists.

The Civil War, with its objective purpose of smashing slavery, was measurably a completion of the bourgeois revolution, with these important differences: it was a sectional struggle, there was no feudal class to fight and to arouse comprehensive revolutionary ideas and energy (which also, in general, explains the vulgar character of American liberalism), and the Northern victory signaled the conquest of commercial capitalism by industrial capitalism. One of the war's decisive phases was the capitalist struggle against the middle class (small producers, merchant capitalists)—economically, in the increasing power of the big manufacturers, bankers, and speculators, and politically, in their increasing control of government, the repression of the Copperheads, who constituted an essentially petty-bourgeois opposition, and the subordination of the farmers to the capitalists. These circumstances determined the historical character of Reconstruction—it was only secondarily bourgeois democratic. The decisive measure of Reconstruction, political expropriation of the Southern states, was determined not only by the struggle against the slave power, but by the need to prevent the unity of Northern petty-bourgeois malcontents with the South, which would have swept the Republican party out of power and broken the industrial capitalist control of the national government. Despite

their many revolutionary aspects (destruction of the slave system, expropriation of a class, and dictatorship as a means of class struggle), the Civil War and Reconstruction left no revolutionary imprint on labor's mind.

Unionism revived under the impact of the war, increasing industrialization, and falling real wages. By 1870 there was a strong labor union movement, and during the next twenty-five years American labor was in the militant stage which had appeared in Europe before 1860. The early post-war labor leaders (*e.g.*, William Silvis) were militant, even revolutionary, and they thought measurably in class terms. They recognized neither skill nor race nor color in the organization of labor—the Negro worker was accepted. The swiftly accelerated pace of industrialization forced the workers into action, and it was aggressive class action. Workers flocked into the Knights of Labor, the unionism of which was an inclusive class unionism embracing skilled and unskilled, all races and colors. The great strikes of 1877 assumed the character of mass insurrections, and were followed by strikes of an equally militant character, culminating in the 8-hour strikes of 1886 and ending with the great Pullman strike of 1894 (the "Debs Rebellion"). The militancy of American labor in this stage is indisputable, comparable with the militancy of any labor movement anywhere, and is of enormous theoretical, ideological, and practical significance to the revolutionary movement of to-day.

But while the earlier militant stage in Europe forged the theory and tactics of socialism and prepared the proletariat to act as an independent class, no similar development appeared in the United States. (No group of socially conscious intellectuals pioneered socialism, but this was itself a product of other factors.) The unions developed before socialism arose, and were not under socialist influence. There was a fundamental contradiction in the Knights of Labor: while the workers were militant, almost revolutionary, the leadership and ideology were not. The masses had to impose action upon the leaders, who did not believe in strikes. Although the movement was definitely anti-capitalist, this spirit was deflected into alien class politics. Free land was still an important (although vanishing) influence, and the workers were still under the influence of agrarian radicalism, manifested in their support of greenbackism and populism. In addition, the workers were now influenced by another alien class, the middle class. In Europe this class of small producers never led any considerable struggle against trustification of industry, partly because its subordination to trustified industry was relatively slow and incomplete, partly because it was afraid of the

independent class action of labor. Lower middle class elements in revolt were forced into the socialist movement, which they influenced but could not wholly dominate. Industrialization and the growth of concentration and trustification, which in Europe were measurably separated, developed in the United States almost inseparably and with the speed of a locomotive. The growth of new industries increased the middle class of small producers, particularly in the newly settled regions of the frontier; simultaneously, concentration and trustification expropriated many small producers and inexorably transformed the middle class of independent employers into a new middle class of managerial and supervisory employees in corporate industry.

The old middle class led a struggle against trustified capitalism and its control of the government, and combined with the agrarian radicals in a movement for political power. (No such movement appeared in Europe: the demand there was not to "bust the trusts" but to nationalize them.) This petty-bourgeois movement submerged the workers in spite of their attempts at independent political action and the appearance of a socialist movement. Thus labor's anti-capitalist spirit was again deflected into alien class politics, as well as into futile proposals for producers' cooperation by the Knights of Labor (comparable to the earlier Proudhonism in France). There was an extremely suggestive contradiction between the workers' militant mass movement and its political domination by agrarian and middle class radicals.

The Knights of Labor collapsed under the weight of its own contradictions. By 1890 the organized workers broke away from middle class and agrarian radical leadership. Unfortunately, however, the break was bound up with the revolt of exclusive craft unionism against the inclusive class unionism of the Knights of Labor and rejection of all independent political opposition to capitalism. In separating from politics (which reappeared as the labor leaders' individual scramble for political jobs), the American Federation of Labor also separated itself from the working class as a whole. The trade unions developed as an organized aristocracy of the upper layers of skilled labor, contemptuous of the unorganized and the unskilled. This was the exclusive, non-political unionism which prevailed in England, but which there was changed by the "new unionism" of the unskilled workers. One result of this was a class political party of the workers, the Labor Party. In the United States, however, although the peculiarities of class relations were disappearing, exclusive unionism and the backward character of the labor movement were perpetuated by hangovers of an older ideology which had become institutionalized and bureaucrat-

ized, and by two other peculiar American developments. Accelerated growth of industrial integration and trustification on a scale unparalleled in Europe made it extremely difficult to organize workers in the plants of massed capital.\* The difficulty was aggravated by an unprecedented influx of immigrants and their calculated concentration in basic trustified industries; most of these workers were former peasants of many stocks, whose racial antagonisms and language barriers were deliberately exploited by management (*e. g.*, by the United States Steel Corporation). That some immigrant workers waged many militant strikes and organized progressive unions does not alter their general rôle but dialectically complements it. Immigration, moreover, as in the past, only more so, permitted workers of the older American stocks to rise to superior jobs in trustified industries and practically to monopolize the better-paid occupations in other industries. Unionism was split three ways: it was isolated from the mass of unskilled and semi-skilled workers, it was limited almost wholly to the sheltered trades, and it comprised mainly American workers. The organized workers, largely because they represented a small minority of the working class, were able in the period 1896–1914 to secure higher real wages, while the wages of other workers were either stationary or moved downward. Hence the unions were not interested in a general class struggle against capitalism. On the contrary, unionism became a bulwark of capitalism, led by bureaucrats who acted as “labor lieutenants of the capitalist class” in the struggle against militant labor action.

The peculiarities of the American labor movement have been generalized into a theory by petty-bourgeois “labor experts” who consider the peculiarities permanent instead of exceptional and temporary. They consider the ideas of Samuel Gompers the “philosophy of stable trade unionism,” and saw progress in the German trade union bureaucracy’s increasing rejection of socialism.<sup>8</sup> The experts forget, however, that similar peculiarities of organization and policy in the English labor movement broke down under pressure of the organization of the unorganized mass of workers (and of the imperialist decay of cap-

\* Where industrial integration and trustification on the accelerated American scale have appeared in Europe, there the unions are weak or non-existent. The heavy iron and steel industry in Germany and France are highly integrated and trustified, and unionism is negligible (the companies also use the American methods of company unions, employee stock ownership, welfare, spies, blacklists, and terrorism to prevent organization). In England, on the contrary, the industry is not highly integrated and trustified, what integration and trustification there are developed slowly, and the iron and steel workers are relatively well organized. Since the war the problem of organization in France is complicated by an influx of foreign labor.



italism): a movement embracing the majority of workers cannot wage a simple economic struggle, particularly where capitalism is declining. Moreover, despite national peculiarities and backwardness, the American labor movement concretely manifested in all stages the universal tendency to limit the employers' authority in the shops and usurp some of their functions ("job control," stressed by American labor)—an elementary form of labor's struggle for power which assumes higher forms under pressure of favorable circumstances and in which is implicit the final revolutionary struggle for power.

By 1900 the objective peculiarities of American class relations had almost disappeared, although the older ideology persisted. There was no longer any frontier, with its perpetual renewal of classes and its influence on the instability of class relations.\* Agrarian radicalism was dead; the revolt of the farmers had been crushed in 1896, and their class-political importance declined rapidly with the end of the sectional expansion of agriculture and the growth of industry. These developments constituted the fundamental cause of the death of agrarian radicalism, although a contributing cause was the temporary and relative prosperity of agriculture produced by rising prices from 1896 to the World War. The sectional development of industry continued as the newly settled agricultural regions were industrialized, and added new elements to the middle class of small producers. Both the new and the older small producers were measurably crushed by the concentration of industry and centralization of financial control. The struggle of the "radical" middle class against the trusts persisted, affecting labor. But by 1914 monopoly capitalism was triumphant.

Monopoly capitalism was the decisive factor in the new economic set-up and class relations. The closing of the frontier contributed enormously to the decline of the agrarian class, but the closing was accelerated by industrial expansion under the influence primarily of monopoly capitalism, which was the agency also in the final subordination of agriculture to industry (and the development of the present agrarian crisis). Monopoly capitalism, moreover, crushed petty-bourgeois radicalism by transforming the middle class—expropriating many of the small producers, making the others dependent upon the larger corpo-

\* With the closing of the frontier around 1890, and particularly from 1900 to the World War, immigration was a major factor in whatever class fluidity still persisted. Immigration still permitted Americans of the older stocks to rise in the social scale who otherwise would not have risen, while social-economic differentiation among the immigrants produced a petty bourgeoisie in each racial group. (This was true also among the Negro people.)



rations, and strengthening those elements of the middle class which are a direct product of monopoly capitalism (executives, experts, technicians, managerial and supervisory employees, small investors). Finally, the unusually rapid and great development of monopoly capitalism in the United States prevented organization of the unorganized masses and facilitated the institutionalization of exclusive unionism in the sheltered trades, while the super-profits of monopoly, directly or indirectly, made possible the higher wages which conservatized the upper layers of skilled workers and separated them from the working class.

The development of monopoly capitalism was enormously accelerated during the World War and the post-war period; it now dominates American economic life. Monopoly capitalism has completed the liquidation of the former objective peculiarities of American class relations begun by the closing of the frontier, and these class relations are now essentially the same as in any other highly industrial country (Table I).

The upper, or capitalist, bourgeoisie, 0.8% of the gainfully occupied, received in 1928 nearly 22% of the national income and 77% of all

TABLE I

*Class Divisions in the United States, 1870-1929*

	1870	PER- CENT	1920	PER- CENT	1929	PER- CENT
Working Class	5,860,000	46.9	27,015,000	64.9	33,000,000	68.5
Industrial Workers	2,600,000	20.8	15,370,000	37.0	15,500,000	32.1
Other Wage-Workers	3,000,000	24.0	7,930,000	19.0	12,500,000	26.0
<i>All Wage-Workers</i>	<i>5,600,000</i>	<i>44.8</i>	<i>23,300,000</i>	<i>56.0</i>	<i>28,000,000</i>	<i>58.1</i>
Clerical	260,000	2.1	3,715,000	8.9	5,000,000	10.4
Farmers	4,550,000	36.4	8,500,000	20.5	7,500,000	15.5
Bourgeoisie	2,090,000	16.7	6,085,000	14.6	7,700,000	16.0
Lower	*	*	3,759,000	9.0	4,575,000	9.5
Intermediate	*	*	2,100,000	5.1	2,750,000	5.7
Upper	*	*	226,000	0.5	375,000	.8

\* Not available.

Industrial workers includes wage-workers in manufactures, mining, railroads, water transportation, municipal traction, electric power, construction, telephones and telegraphs; other wage-workers includes servants, hired farm laborers, etc. (but not wage-workers in government service). Clerical includes clerks in offices and stores, stenographers, typists, office boys and messengers, and salespeople in stores. Farmers includes farm laborers working on home farms. Lower bourgeoisie includes all non-wage-workers and non-farmers with incomes below \$3,000 yearly; intermediate bourgeoisie, incomes of \$3,000 to \$10,000; upper bourgeoisie, incomes of \$10,000 up.

Source: Computed from material in Bureau of the Census, *Census of Population*; Bureau of Internal Revenue, *Statistics of Income*.

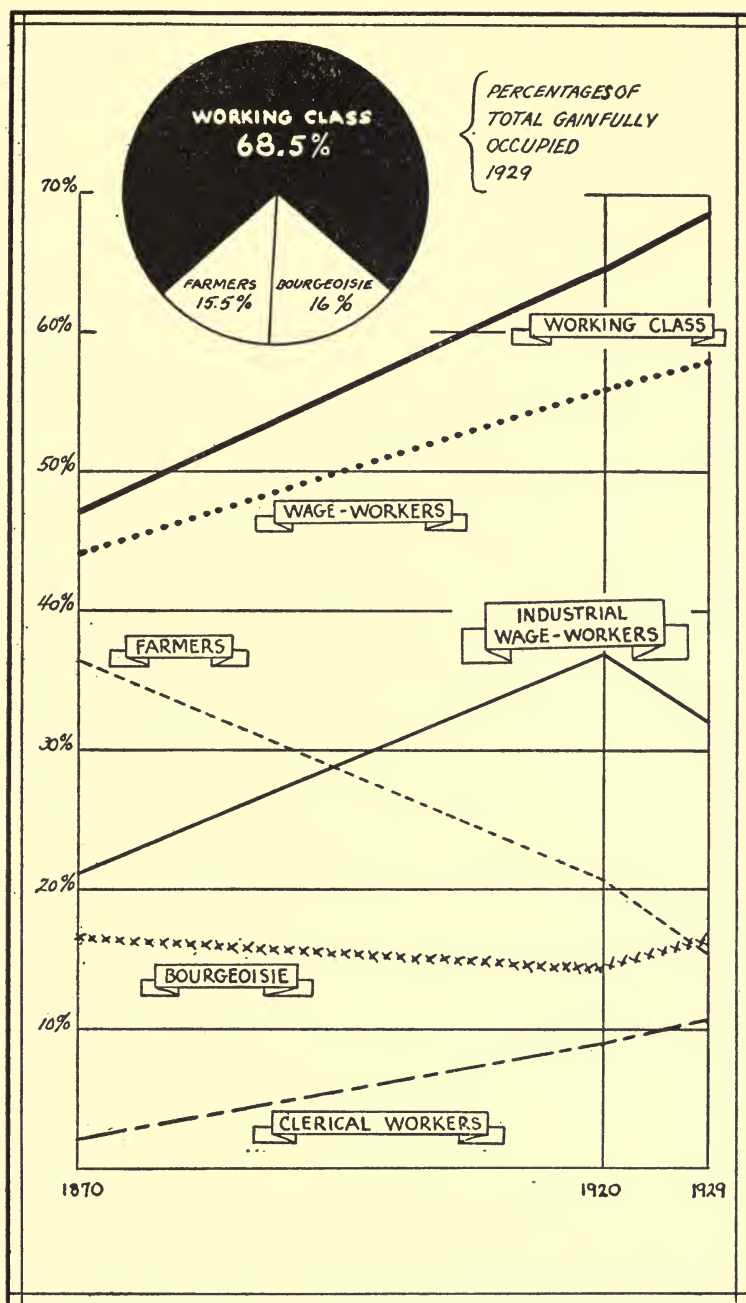
corporate dividends, and owned 46% of the nation's capital resources (an ownership concentrated in the decisive corporations, yielding control over industry). This class dominates economics and politics; it is essentially a class of financial, not industrial, capitalists and rentiers, a small, wholly predatory oligarchy.

Farmers in 1929 were only 15.5% of the gainfully occupied, where they constituted 70% a century ago and over 36% sixty years ago. Still more important, the farmers are no longer primarily an independent propertied class. Mortgages rose from \$7,875 million in 1920 to \$9,468 million in 1928 (not including \$3,500 million of other indebtedness); mortgage interest practically tripled between 1909 and 1927, while the share in agricultural income of the owners of leased farms increased 60%. The farmers' share of the national income declined absolutely and relatively. Tenancy rose from 25.6% in 1880 to 38.1% in 1920 and 42.4% in 1930. While the number of farms decreased from 6,448,343 in 1920 to 6,288,648 in 1930, farms of 500 acres up rose from 217,224 to 240,316; the largest increase was in farms of 1,000 acres up, which rose from 67,405 to 80,620. Class divisions among the farmers may be thus roughly classified: 500,000 capitalist farmers, owners of fairly large farms, some of whom also rent land, and the "farmers" whose sole business is leasing the farms they own; 2,000,000 middle class farmers, owners and tenants of medium-sized farms, whose position becomes continuously more precarious; 3,500,000 poor farmers, the majority of small owners and tenants, pauperized American peasants deprived of nearly all possibility of rising in the economic scale. (The balance are farm laborers on home farms.) The farmers are no longer an independent, homogeneous, powerful class; they are now incapable of leading a great mass movement against capitalist abuses, of developing an agrarian radicalism *which can dominate the ideology and political program of the workers*. With a permanent crisis and surplus population in agriculture, it becomes possible, under the new economic set-up and class relations, to rally the mass of the farmers to the revolutionary struggle of the workers. The immediate program must include the repudiation of debts and expropriation of non-operators. The final program must include the socialization of farming, its socialist unity with industry. For American agriculture, with its many large-scale farms, its increasing efficiency and labor displacement, cannot prosper (except in exceptional cases and regions) on the basis of small business production.

The lower and intermediate bourgeoisie, as a class in between the capitalist bourgeoisie and the working class, is of extreme importance

in the social-economic structure of American capitalism; they made the most striking gains of any class during the 1923-1929 prosperity. The middle class in 1929 constituted 15.2% of the gainfully occupied (the same as the farmers in numbers), received, in 1928, 30% of the national income and 20% of corporate dividends, and owned 34% of the nation's capital resources. But this is not the same middle class whose decay Marx correctly predicted. The *old* middle class was essentially a class of independent small producers, who are now comparatively unimportant, completely subordinate to the monopolist combinations of capital. The *new* middle class is essentially a class of technical, managerial, and supervisory employees in corporate industry and investors (along with small producers, storekeepers, professionals and other elements which constituted the old middle class). The lower bourgeoisie is mainly composed of the older middle-class elements, and is deprived of economic or political independence. The intermediate bourgeoisie, or upper middle class, is composed mainly of the newer middle class elements; it is a direct product of monopoly capitalism, upon which it is wholly dependent. This upper middle class in 1929 comprised 2,750,000 persons gainfully occupied, 5.7% of the total, received, in 1928, 17% of the national income and 14% of corporate dividends, and owned 20% of total capital resources. Middle class "radical" revolt against trustified capitalism is now impossible on any considerable scale; the lower middle class has not the strength, the upper middle class has not the desire. Any "revolt" of the middle class, independent of the workers, can today proceed only within the orbit of monopoly capitalism and fascism. But the lower bourgeoisie may be won over to the cause of the workers. From 40% to 50% of its members are hired employees. In 1927, only 353,000 were independent entrepreneurs in manufactures, mining, and construction, and 1,499,000 in retail trade.<sup>9</sup> The functional groups in the lower bourgeoisie—the technicians, teachers, professionals—can be approached on the basis of their functional interests: they are increasingly unemployed, and only socialism can release their craft function for social service.

The working class is now the largest and economically most important class; in 1929 it constituted (wage and clerical) 68.5% of the gainfully occupied, but received, in 1928, only 41% of the national income and 1.2% of corporate dividends, and owned only 4.7% of total capital resources (concentrated in a small minority of better-paid skilled and clerical workers). There is no longer the old fluidity of classes and instability of class relations, whether due to the frontier, sectional industrial development, or immigration; the workers have coalesced



XIX. AMERICAN CLASS DIVISIONS 1870-1929.

as a class, particularly the industrial proletariat which constitutes the spearhead of the working class. Once it could be said: revolutionary movements are not possible in the United States because there is no class stratification, as in Europe; American class stratification is now definite and final. The new class relations and balance of class power permit the working class to separate itself ideologically from all other classes in conformity with its objective separation. Any considerable revolt of the workers against capitalism can no longer be deflected into alien agrarian or middle class radical politics. The new class relations and the multiplying contradictions and antagonisms of monopoly capitalism (and imperialism) prepare the objective conditions for the revolutionary struggle of the working class against capitalism.

One of the "new" liberals nonchalantly says: "Already the middle class in America, not including the farmers, outnumbers the working class. . . . Adding farmers to the middle class, the majority in sheer numbers is large. . . . America still has a proletariat, but every automatic process, every battery of photoelectric cells, diminishes its numbers and its political importance."<sup>10</sup> This is sheer fantasy. In 1929, the wage-workers alone, excluding clerical workers, constituted 58.1% of the gainfully occupied—a clear majority. In spite of its numerical increase, the bourgeoisie, which includes the middle class, stands, if anything, in a slightly smaller ratio than in 1870. It is another fantasy to assume that technology will proceed smoothly, uninterruptedly toward the abolition of the proletariat.\* The proletariat, the industrial workers, is a majority of all wage-workers, *and in a larger proportion than it was in 1870*. This class is the carrier of socialism. It is the heart of the working class, and its might flows from control of industry—a control more mighty than in 1870, because industry is now more pervasive and more complex. A revolutionary class, moreover, does not come to power because of numerical superiority; it comes to power because it represents new forms of production, the forces of social progress. This is the answer to fascism. It is the answer to the wavering of petty-bourgeois elements, for these elements can be won over or neutralized if the proletariat manifests its revolutionary might, if it

\* This is simply an argument against communism and for a middle class "revolution," whatever that may be, and it ignores the fact that the middle class is capable of "independent" action only within the orbit of capitalist relations. A variant of the argument is that the workers are increasingly an unemployed class, and thus cannot make a revolution. But the conditions which thrust the workers into disemployment also thrust large groups of the middle class into the same condition. Can the unemployed of the middle class make a revolution, if any?



shows itself capable of carrying on the struggle for power to a successful conclusion.

Yet there was no revolutionary upsurge of the working class in the period 1923-29, despite the new class relations; except for the Communist party, all labor organizations became more and more conservative under the influence of the "new capitalism." The explanation is simple: the institutionalized ideology of older class relations was still dominant and was strengthened by an unusual upswing of prosperity, due to an unusual combination of circumstances which had appeared only once before in American history, in the seven years after the Civil War. Prosperity was the product mainly of an exceptional expansion of old and new industries and the increasing export of capital and imperialism, in which the imperialist decline of Europe was of crucial importance. But these same forces produced an aggravated depression and introduced the period of decline of American capitalism.

Monopoly capitalism has two contradictory aspects. It is capitalism at its highest, based on the technical integration and corporate concentration of industry—a socialization of production which constitutes the objective basis of socialism. But monopoly capitalism is also capitalism in decay, rent asunder by aggravated contradictions. Capitalist "organization" turns into its opposite and produces more disorganization. Finance capital, speculative and adventurous, intensifies the basic instability of capitalist production. Monopoly, however incomplete, relatively restricts the technological and social development of production. This is aggravated by decline. Capitalism becomes more of a fetter upon the productive forces, begins to decay.

The American ruling class will try to "solve" the mounting contradictions involved in restricted home markets and economic decline by an intensification of imperialism to secure foreign markets for surplus goods and surplus capital. But while that may solve some problems it produces other problems and ultimately makes worse the economic decline, as imperialism is the extension and aggravation on a world scale of all the inner contradictions and antagonisms of capitalist production. Imperialist powers in Europe and Asia also seek foreign markets to absorb surplus goods and surplus capital. Foreign markets become relatively restricted; colonial and other economically backward countries tend to develop their own industries and capital resources, and are infected by the general capitalist decay as their "normal" economic development is hampered by monopoly capitalism and imperialism (economic tribute, political pressure). Intensified competition among the imperialist powers sharpens the danger of war, including

war against the Soviet Union, and accelerates the general economic decline, although this decline may be interrupted by temporary up-swings of prosperity in different countries and at different times. These developments mean more exploitation of the workers, driving them to revolt, aided ideologically by the example of the working class building socialism in the Soviet Union. Imperialism converts the world into a revolutionary arena, where the struggle ranges from colonial revolts to the direct proletarian struggle for the seizure of power. War is transformed into civil war against capitalism and for socialism.

Thus the very forces which produced the "resplendent" prosperity of 1923-29 are now creating its negation, the decay and decline of capitalism, creating the negation of labor conservatism.

The basic cause of union conservatism in the years of 1923-29 was not the general rise of real wages—the rise was very small among the majority of workers and was partly offset by increasing technological unemployment; the basic cause was an unusually high rise of real wages among the organized skilled workers, with some few exceptions such as the miners, large gains in some cases (*e.g.*, building trades). The wages of skilled workers, moreover, kept on rising after 1923, although real wages were stationary or decreased among the majority of unorganized workers. The unions were satisfied; they considered prosperity and rising wages everlasting. But union loyalty and membership declined—the American Federation of Labor lost 2,000,000 members, and "welfare" capitalism and company unions developed great strength. While the labor union bureaucracy urged "class peace" the capitalists waged class war upon labor in the form of welfare capitalism and company unions, which are an expression of the class struggle. Union wages rose but the unions were threatened by technological changes and by the base of unionism becoming still more narrowly one of privileged skilled workers. There were many predictions that unionism might wholly disappear. Many of the union bureaucrats felt that new tactics were necessary, but they characteristically evaded the issue by proposing to "sell" unionism to the employers on a business basis, to foster labor-management cooperation, to develop a vulgar philosophy of "trade union" capitalism, to organize labor banks which the Grand Chief of the Brotherhood of Locomotive Engineers considered the "American answer to Marx and Lenin." The banks are now a mass of ruins.

This decline of unionism was not merely the result of prosperity but of the new economic set-up. Craft unionism, adapted to small-scale competitive capitalism, cannot survive in its old form the coming of

monopoly capitalism, of the concentration of industry in larger aggregations of capital. This was admitted by John R. Commons, the father of the theory that the older American unionism and its limited objectives are eternal and *the* basis of the labor movement:

"The period of banker capitalism is the modern variation of Karl Marx' theory of the ultimate concentration of all industry. . . . Labor movements now face a new problem and take on a puzzling new formation. . . . In the face of this situation of the twentieth century all labor movements except in Russia seem to be helpless and their leaders despondent. . . . It may be that labor movements will be relegated to the history which now shrouds the guilds of the Middle Ages or that craft unionism will turn to industrial unionism or communism."<sup>11</sup>

The "banker capitalism" is monopoly capitalism, against which craft unionism is helpless. But the events of 1923-29 did not mean the end of unionism. Now, under the conditions of economic decline, intensified class struggle, and an influx of new members, the unions are becoming stronger, more militant, moving toward industrial unionism, responding to new conditions and new tasks. One expression of this was the great series of strikes in 1934 (in which a new tactic was evolved of cooperation with organizations of the unemployed and the farmers), including the magnificent general strike in San Francisco.

Left wings within the old unions will urge more militant class action and the broadening of the basis of unionism. The unorganized workers, tormented by economic decline, will move toward action and the organization of industrial unions. Unions will become organs of struggle, and can survive and develop only as organs of struggle. This awakening to organization and action, limiting the possibility of capitalist concessions to comparatively small groups of privileged workers, will force the workers to independent political action, which, under American conditions, may at first mean a labor party. We are not, however, in England, in the year 1900, but in a revolutionary epoch of larger perspectives and struggle. A labor party, despite its significance, presents infinitely more problems than it solves. Organization of a labor party means simply that the masses are in motion, that they accept independent political action, and are prepared for larger objectives. These larger objectives must inevitably become a revolutionary struggle for the overthrow of capitalism, which laborism has proven itself incapable of waging. That is the task of the communist party and its Marxist program, disciplined organization, and awareness of purposes and means, unifying all phases of the proletarian struggle.

As the objective conditions are favorable for the development of an American revolutionary labor movement and communism, the ideological backwardness of the workers must disappear, although it is still an important problem of approach.

But where ideological backwardness formerly represented the overwhelming weight of objective economic conditions and class relations, backwardness now is simply a weakening cultural lag. Already unemployment, mass starvation, and capitalist repression are creating deep scars in the workers' consciousness, accompanied by a process of submerged ideological transformation which is slowly but surely becoming articulate. Capitalist relations are being undermined by the crisis of the system; the prospect is one of successively more violent cyclical collapses, of chronic hard times and short-lived spotty prosperity, of imperialist war and growing world revolutionary struggles. The ideological transformation now being wrought will be intensified by coming events and struggles. Communist agitation and action are conscious, purposive factors in the process of ideological transformation, stimulating, clarifying, organizing, the combination of mass struggle and the "patient explanation" of which Lenin spoke (six months before the conquest of power).

The American revolutionary movement, moreover, is not a clean slate. Despite its agrarian and petty-bourgeois reformist ideology and illusions, the American working class repeatedly demonstrated its capacity for militant struggle in the years 1877-94—the railroad strikes of 1877, which spread to other industries and became almost a national general strike; the mighty 8-hour demonstrations ten years later; the great Pullman strike of 1894. The ensuing twenty years were marked by another series of great strikes among the coal and copper miners, the textile workers and other groups of the working class. In these actions the workers manifested an incomparable spirit of solidarity and courage, their militancy often assuming the form of a struggle verging on civil war. There is nothing finer in the strike annals of European labor.

Most of these strikes were waged within the circumscribed limits of an ideology which rejected the larger class character and class objectives of the labor movement. After 1900, however, changing class relations and relative economic decline produced the beginnings of ideological change in American labor. There was increasing discontent among the unions of skilled workers, demands for amalgamation, more aggressive struggle and independent political action. Socialism was becoming a force; although the Socialist party represented mainly



petty-bourgeois reformism and the unionism of the aristocracy of labor, it had significant proletarian elements which subsequently became the basis of the American Communist party. The Socialist Labor party and the Industrial Workers of the World built up traditions of real value to the contemporary revolutionary movement—the one in its struggle against opportunism, both socialist and trades union, its emphasis on the importance of a disciplined party of uncompromising revolutionists, and its Marxist conception of industrial unionism; the other in the great strikes it waged and its stirring to action of the unorganized unskilled workers. The labor movement was approaching the European model, both in its general character and in the struggle between reformist and revolutionary tendencies. American labor was not exceptional, the tempo of its progress was simply slower.

This progress was interrupted by the World War, when Gompersism became still more reactionary. But the Socialist party, under mighty pressure of the left wing, adopted an anti-war program, which was, however, practically sabotaged by the party leaders. Out of the party's left wing emerged the Communist party. Immediately after the war, in 1919, accumulated working class resentment flared up in a series of great strikes—the steel strike, in which unskilled workers waged one of the greatest labor struggles in American history, and the Seattle and Winnipeg general strikes, in which the strike committees, particularly in Seattle, usurped many of the functions of government in the manner of soviets. Labor and the unions were being radicalized, the American Federation of Labor accepted the Plumb Plan for a sort of workers' control of the railroads, and the capitalist press spoke fearfully of revolution. The government let loose an unprecedented campaign of terrorism against the workers, and particularly against the communists. There was another upsurge of militant strikes in 1921–22, when the workers' stubborn resistance to wage cuts was largely responsible for the rise in real wages by preventing a fall in money wages as great as the fall in prices. The process of radicalization culminated in 1924 in the acceptance of independent political action by the American Federation of Labor and the railroad brotherhoods. But the acceptance of independent political action was an empty gesture, for the process of radicalization had temporarily stopped. Under the impact of prosperity the unions became more and more conservative.

A repetition of the 1923–29 experience, when radicalization was submerged by prosperity, is now impossible, as the decline of capitalism prevents the revival of prosperity on any considerable scale. The forces which produced that submergence, it is now clear, multiplied economic



and class contradictions, weakened the conservative unions, and prepared the appearance of an American revolutionary movement. Militant struggles will break loose again; but unlike the struggles of former years they will, under the impact of economic decline, favorable class relations, and communist awareness of purposes and means, assume larger dimensions and objectives, press onward to the struggle for the conquest of political power.

Communism thus builds upon the dialectic movement of economic and class forces in *this* country, the heritage of the militant experience and traditions of the American working class, and the determination to utilize realistically and creatively every favorable element in the American scene for proletarian revolution, which alone can overthrow capitalism and prepare the coming of socialism.

Are the communists isolated? Are they rejected by the American working class? But communism represents the larger historical interests of the working class (as well as its immediate interests) and the only alternative to social decline and decay. It is a minority, but it is also the advance guard of a class, issuing a challenge, creating an ideology, rallying the iron battalions for the coming struggle. A century ago the American Abolitionists were also isolated, spurned and repressed by the very class whose interests they served, yet that class was eventually compelled to wage a civil war to settle the issue of slavery. The working class will increasingly accept the program of its conscious representatives, the communists, the Abolitionists of to-day who are waging war to abolish capitalism and wage-slavery. Ideological struggle and preparation are an indispensable preliminary of revolution.

There is no conflict, but harmony, between the tasks imposed upon labor by American capitalist decline and the aspirations of communism. Nor is there any conflict between communism and the special problems created by the hangovers of peculiarities in the development of the American economy, class relations, and labor movement. That it is necessary to consider such problems was urged by Marx and Lenin. In 1920, when the Communist International emerged as a definite organization, Lenin stressed that the communist approach means "to investigate, study, ascertain, grasp the nationally peculiar, nationally specific features in the concrete attempts of every country to solve the aspects of a single international problem."<sup>12</sup> Thus communism does not exclude consideration of national differences, but it considers them to *facilitate* and not to evade the revolutionary struggle.

The moderate reformist socialists, echoing (as usual) the vulgar

petty-bourgeois radicals, argue that communism is alien to the American scene, a sort of unnaturalized stranger in our midst. But that is precisely what was said of the Socialist party when it still clung to some of its revolutionary pretensions. It considers peculiar national problems simply as another argument for democratic reform and opportunism, for the renunciation of revolutionary struggle and the overthrow of capitalism. That is everywhere characteristic of contemporary socialism, which represents the vestigial remains of the pre-war opportunist labor movement. Marxism was met by peculiar national problems in Russia; the Menshevik socialists made of them an argument against proletarian revolution, the Bolsheviks utilized them to facilitate the revolution. Mensheviks opposed the Bolshevik revolution on the plea that *capitalism* was insufficiently developed for proletarian revolution. But capitalism was sufficiently developed in Germany, yet the socialists opposed proletarian revolution on the plea that *democracy* was insufficiently developed to realize socialism. Both evasions are combined in the policy of the Spanish socialists—they plead that both *capitalism* and *democracy* are insufficiently developed in Spain to make socialism the immediate issue. Thus the socialists defend capitalism. Meanwhile the communists in the Soviet Union build socialism. . . .

More worthy of analysis are the arguments on the need of “Americanizing” communism which are being discussed among intellectuals moving toward communism. (This leftward movement of the intellectuals is an enormously significant social symptom, unprecedented in American history, as one of the indications of coming revolution is desertion of the ruling class by intellectuals who accept the cause of an oppressed class struggling for power.)

One group of intellectuals “Americanize” by stressing technology and the engineers—either as an argument against communism or as an argument for some not clearly defined change in the communist approach. Technology and engineers, of course, are not unknown in Europe, and their significance is not exclusively American. The high development of technology offers more aids than obstacles to revolution. Engineers as a class are not capable of becoming revolutionary, as they are bound up with all the exploiting relations of capitalist production. Marxism envisages the significance of technology—its accelerated development complicates all the contradictions and antagonisms of capitalism and it is one of the factors in revolutionary tactics. To offer, however, the “technological” conception of revolution as a substitute for communism and its reliance on an inclusive social theory and on the proletariat can lead only to adventurism—or fascism.

Another group stresses the "American spirit." It has discovered a "vital mysticism" in Karl Marx of which no one was previously aware. "One must needs defend the Soviet Union. . . . But we must forge our part of the world future in the form of our own genius." Yes, but . . . ? What does it mean in terms of concrete revolutionary problems and definite communist tasks? It means too much or too little. If it means that communism must draw its inspiration only or even mainly from "our own genius," it is too much, as that is the conception of petty-bourgeois philistines. If it means that communism must necessarily be colored by its American environment, it is too little, for the question is, "In what way?" The general, abstract formulation of the problem invites non-communist interpretation.

Still another group stresses what may be called "understandability." It insists that the "supremely important job" now is to "Americanize" communism; it is slightly more concrete than other "Americanizers" but offers only substitutions—the substitution of "equity" for communism, of "unearned increment" for surplus value, and "interactions of social groups" for class struggle. These substitutions might be justified on one or both of two counts: they are more easily understood by the American masses and they are more realistic or scientific than the Marxist terminology. But the substitutions do not possess more understandability—communism is acquiring definite meaning among the masses (it is identified with the Soviet Union's achievements; with what is "equity" identified?), "unearned increment" would have to be explained as much as surplus value, and class struggle and class war are as elemental as the masses whom "interactions of social groups" would completely baffle. Nor are the substitutions more realistic or scientific—"equity" is all things to all men and is claimed alike by religion, capitalism, and fascism, the bourgeois economists are not agreed upon the meaning of "unearned increment," which, moreover, justifies part of the capitalist plunder, and "interactions of social groups" (a typical product of evasive and apologetic American sociology) is as indefinite as class struggle is definite. These abstract approaches to the problem not only vulgarize the issues involved but may lead to liquidation of communism. In one of its aspects "Americanization" becomes the product of practical revolutionary development, of class and party action and experience. In another and correlative aspect "Americanization" means the necessity of concrete Marxist analysis of the special problems created by peculiarities in the development of the American economy, class relations, and labor movement—and this is necessary not only in the United States, but in all countries.

The fundamental "special" problem which confronts American communism is the necessity of combining two stages in the development of the labor movement—the stage of elementary class action and the stage of preparatory revolutionary action. Despite their considerable militant traditions, the American workers have still to take the first real steps toward larger independent class action, often the most primitive forms of such action. The working class cannot skip stages, but neither can stages be rigidly separated. Communism cannot isolate itself from the elementary forms of developing class action, but neither can this action be isolated from the necessity of more conscious revolutionary action and organization. For the epoch *is* revolutionary. Thus the struggle to organize unions among the unorganized workers may at any moment become a struggle to throw them into larger mass actions, to organize them into soviets. This "special" American problem is an aspect of the necessity of linking up the final objectives of communism with the most elementary needs and struggles of the workers, with their every immediate problem and action, which become the starting point of communist preparation for the final direct struggle for power and the dictatorship of the proletariat.

Among the more specific "special" problems are:

Necessity of an intensive and variegated ideological struggle to overcome the lingering cultural lag in the consciousness of the American workers, linked up, of course, with the practical struggle.

Limited minority character of American unions as essentially organs of the aristocracy of labor, the unusual petty-bourgeois spirit and corruption of their bureaucracy, the necessity and problems of revolutionizing these unions and of combining this activity with the struggle to organize unions among the unorganized workers.

Unifying the struggle of the Negro in its racial and class aspects (the Negro and organization of the unorganized workers, unity of the struggle of Negro farm tenants with that of white tenants).

Problems involved, class and geographical, in mobilizing the farmers in the struggle against capitalism; differences in the American agrarian problem from that in economically backward countries.

Unusually high development of American technology in relation to industrial unionism and prospective revolutionary struggles.

Significance of the more intensive struggle required to accomplish the revolution in the United States offset by the greater ease of organizing socialism after the conquest of power (many problems and difficulties of the Russian transition to socialism would not arise in this country because of its higher economic development).



Problems created by the strength and significance of the new middle class in the American social set-up, particularly in relation to fascism.

Significance of the belated development of radical social consciousness among the American intellectuals, their relation to various class groupings, particularly the new middle class, clarification of their function in the movement, communist struggle among them.

Creation of an American Marxist literature, the inadequacy of which more than anything else creates the illusion that communism is "alien" to the American scene.

Not all of these problems are peculiarly American, for most of them, in some form or other, exist in other countries. Concrete Marxist analysis of the problems is necessary not merely to "Americanize" communism but creatively and dynamically to utilize the peculiarities of our economic and class development to hasten the coming of communist struggle and revolution. These peculiarities have their positive, as well as negative, aspects. The necessity of considering the more elementary forms of class action in setting the masses in motion provides communism with the opportunity of rallying the unorganized workers unopposed by an entrenched bureaucracy. The Negro offers a twofold approach—class and racial. The absence of a considerable American Marxist literature and tradition means that communism does not have to overcome any generally accepted or influential reformist socialist distortion of Marxism. Dialectically investigated and grasped, the special problems created by national differences offer means of accelerating communist struggle. Communism, which is Marxism and Leninism, is both a science of social development and a philosophy of revolution; it approaches the problems and tasks involved in the overthrow of capitalism and the building of socialism with a creative awareness of purposes and means.

For communism is a conscious and determined struggle by a whole class to realize objectives clearly perceived and understood. The objectives are not the artificial creation of the communist; they arise out of the development of capitalism itself, including its American form. The American revolution is necessary; development of social-economic forces provides the means for making the necessity a reality. It is the fulfillment of history, of its progressive struggles and aspirations. American civilization depends upon communist revolution, and, given the dominant economic position of the United States, the victory of the American working class will make a mighty contribution to the building of world socialism and a new world civilization.



## Notes and Sources



# Notes

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## CHAPTER XXV

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## CHAPTER XXVI

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